

To outsource, OR NOT TO OUTSOURCE –

that is the question

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Unless you are a hermetic monk, you cannot escape the topic of outsourcing – it is everywhere. The prestigious Shell Economist Writing Prize competition even chose a branch of outsourcing (offshoring) as the topic for 2004 – quite a striking indication of its relative importance when you consider that the previous essay topics include civil liberties and ecology. As important as it is in the financial industry in general, what is the specific relevance of outsourcing to a corporate treasurer? To answer this question, we first need to consider the treasurer's role.

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 that 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 marginalising 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 appetite/policy. This approach is effective simply because outsourcing a function or series of functions is an investment: it requires project management skills; it feeds on time-consuming contributions from existing skilled employees; and always 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 in contemplating a move to outsource is to understand why it is being considered an option at

that particular time. Has the company recently merged or acquired another unit, leaving considerable 'consolidation work' to be achieved in a short time frame? Is it a time of general crisis for the company? Does the entire treasury system infrastructure urgently need upgrading? Is the relationship between the group treasury department and the regional/local treasury centres being changed? Put simply, is outsourcing being considered as a solution to some short-term organisational issues that are creating a pressured environment? Or is it being considered as part of a strategic plan to position the treasury department within the company? Experience shows that treasurers who decide to outsource out of desperation as a last resort 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 start 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/power. 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. Most treasurers will have realised long ago (perhaps during the time when process

re-engineering was all the rage) that efficiency is not about going for the cheapest offer or cutting the most costs – rather it is about maximising the value for money and ensuring that solutions fit the culture and business objectives of their company; and in considering what to outsource it may be concluded that outsourcing is simply not the right solution.

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 solution, and exporting a broken or convoluted process only shifts daily ownership of the problem. This is made worse by the fact that most outsourcing service providers need to standardise their offering to safeguard their own profits and are therefore usually ill-equipped to solve an outsourcer's embedded problems. The one exception to this rule is where an outsourcing service provider designs/builds a new system/infrastructure and then receives service fees for operating it. However, treasurers would do well to remember that they may outsource the duty but never the responsibility. This means that if a function/process is inefficient and perhaps also 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. For example, if a treasurer outsources the cash management function and then his/her company experiences a liquidity problem, it does neither treasurer nor the company much good if they point to a watertight Service Level Agreement.

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 would be ready for an outsourcing project. Aside from the obvious advantage of efficiency gains, this can be a useful acid test or reality check that helps to galvanise a final decision:

to outsource or not to outsource. Why is this so? If the main advantages of outsourcing can be condensed into two areas, namely cost reduction and optimal resource allocation (leading to productivity improvement), 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 can 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.

MANAGE IMAGE; DODGE PROJECT RISKS

After this three-step thought process has been completed, the processes have been optimised in partnership with a company's product/liquidity provider and the decision has been made to outsource, significant challenges still need to be addressed if a company is to fully reap the benefits of this move. Perhaps the most daunting challenge is to constantly manage the expectations of all involved parties. This should be the top priority throughout all phases of an outsourcing project (requirement specification, project deployment and the go-live phase) and it is vital to manage not only expectations in the context of the 'external' relationship (i.e. between the outsourcing service provider and the company) but also the expectations within the company. Obvious candidates

to target are the project stakeholders and other senior management, but equally important is the quality and timing of information/updates given to all the employees. As stated previously, outsourcing is an emotive subject. Many people misunderstand outsourcing and fear that it is contagious and could endanger their own jobs.

Clear communication is the enabler of this expectation management. In addition to maintaining strong control of cost and performance data (a particularly formidable undertaking if an element of offshoring is introduced into the equation) it is advisable at the outset to establish and agree on a status reporting mechanism and the 'language' that should be used to give updates and discuss issues. Companies committed to avoiding jargon duels and costly misconceptions should start by using the requirement specification and Service Level Agreement documents to agree not only on exactly what will be outsourced, but also on how the company and outsourcing service provider will work together.

A further area of concern is flexibility. Excessive standardisation among most outsourcing service providers means that they are often unresponsive to changing business needs, and this slower time-to-market will probably impact a company's ability to support a new business opportunity. To ensure that an outsourcing service provider adheres to the company's timetable, a procedure for managing a change in the service should be included in the Service Level Agreement. On top of this, taking time at the start to make sure the outsourcer understands the company's objectives and to assess the cultural fit will pay untold dividends later on by minimising the chance of a troubled relationship. However, for all that the above measures will greatly increase the probability of a successful partnership between the company and the outsourcing provider, the possibility that it just might not work out cannot be discounted. So it is prudent to include a dispute resolution process and even a termination process in the Service Level Agreement.

CONCLUSION

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 lower costs and better resource allocation. Treasurers who are genuinely adding value as respected financial counsellors and members of the executive management team have nothing to fear from outsourcing part of their functions. However, outsourcing is not necessarily the best method to achieve cost-effectiveness (i.e. increasing value-for-money rather than simply reducing costs). Furthermore, treasurers should thoroughly vet prospective outsourcing service providers, focusing on the best cultural fit to their own

company and ensuring that overall service of the treasury department is not compromised.



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