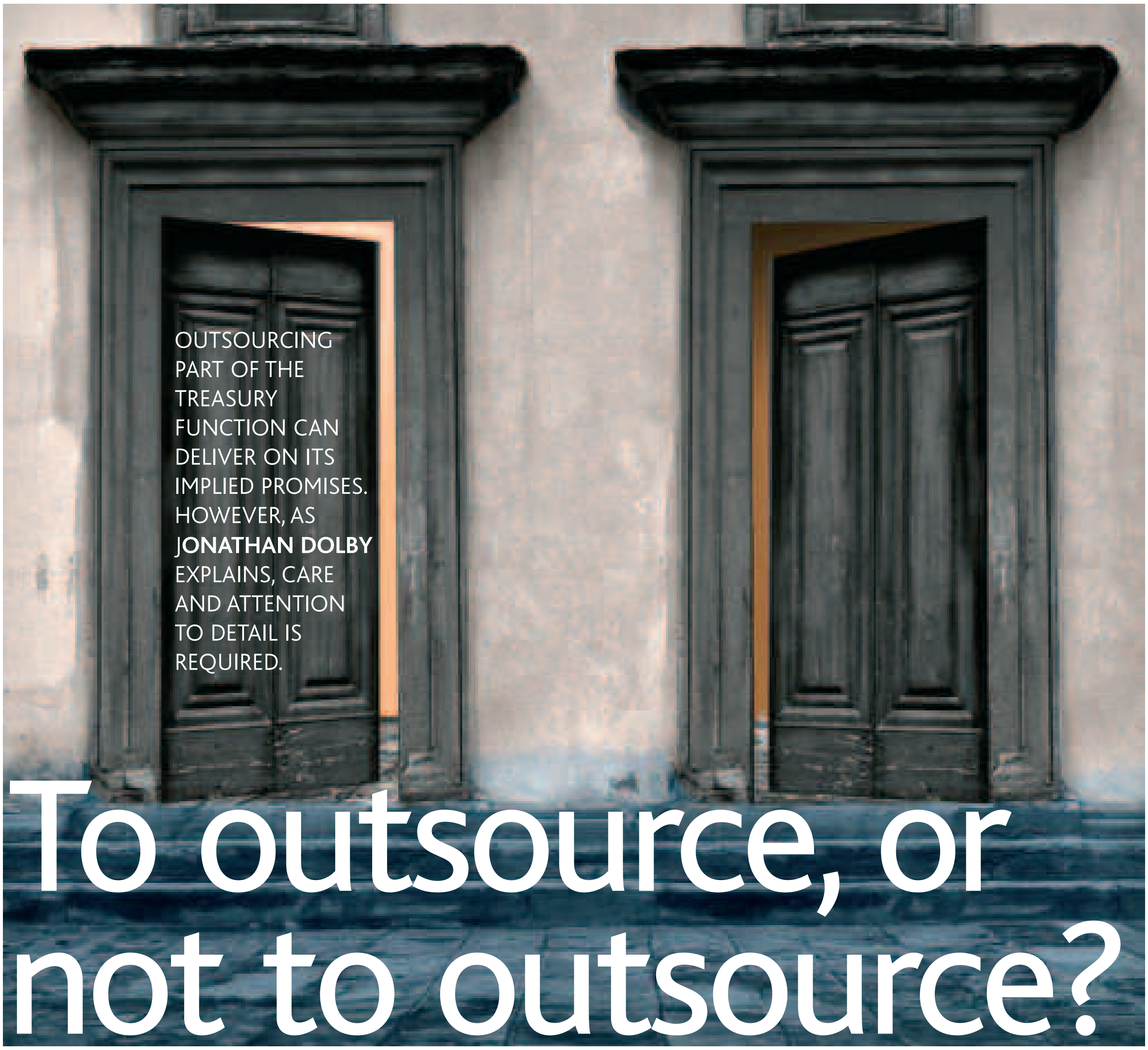

OUTSOURCING PART OF THE TREASURY FUNCTION CAN DELIVER ON ITS IMPLIED PROMISES. HOWEVER, AS **JONATHAN DOLBY** EXPLAINS, CARE AND ATTENTION TO DETAIL IS REQUIRED.

To outsource, or not to outsource?

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 for society in general, what is the specific relevance of outsourcing to a corporate treasurer?

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. 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 either 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

Executive summary

- Outsourcing is an investment decision based on an analysis of the benefits.
- The analysis consists of three steps:
  - why is it being considered at this time?
  - what should be outsourced? and
  - appraisal of the current functions to be outsourced.
- The expectations of all parties concerned with the outsourcing need to be managed.
- Clear communication and flexibility are vital.

analysis of the benefits compared to 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 considerable fees paid to the outsourcing provider. There are three steps in the analysis that should be followed when considering whether outsourcing is right for your company.

THINK IT THROUGH The first step in contemplating a move to outsource is to understand why it is being considered as an option at that particular time. Has your 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? Are you changing the relationship between the group treasury department and the regional/local treasury centres? 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 its full benefits, while those treasurers that 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. The fear is that if you outsource a process then it is perceived as being tantamount to admitting a lack of appropriate skills in the treasury department or that if you outsource 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 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 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 that efficiency is not about going for the cheapest offer or cutting the most costs.

Once a treasurer has reflected on the real reason why outsourcing is being considered and 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 the outsourcer's embedded problems. The one exception to this rule is where an outsourcing service provider builds a new system 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 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.

MANAGE THE IMAGE AND DODGE THE PROJECT RISKS After this three step thought process has been completed and the decision is taken 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. The project stakeholders and other senior management are obvious candidates to target, but equally important is the quality and timing of information given to all the employees. As stated at the start of this article, 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 a status reporting mechanism and the 'language' that should be used to give updates and discuss issues. Companies that are committed to avoiding jargon duels and costly misconceptions should start by using the Requirement Specification and Service Level Agreement documents to agree not only exactly what will be outsourced, but also how the company and outsourcing service provider will work together.

Another 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 (SLA). 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 does not work out cannot be discounted. So it is prudent to include a dispute resolution process and even a termination process in the SLA.

BEST CULTURAL FIT 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 that are genuinely adding value as a respected financial counsellor and member 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, treasures 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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