

FOCUS ON

OPERATIONS OUTSOURCING

As operations outsourcing continues to surge in both scope and demand, behind every successful arrangement is a focused approach to personnel planning, explains Peter Cherecwich, Northern Trust's head of Global Fund Services



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THE PEOPLE FACTOR

Two of the most common misconceptions about outsourcing are that it eliminates the need for in-house operations expertise, and that the universal purpose of outsourcing is to reduce staff. On the contrary, in-house operational knowledge remains vital if an outsourcing relationship is to be productive, and many firms are electing to re-purpose staff rather than make them redundant.

There is no single best practice with these matters; every organisation must chart its own path based on its culture, values, business priorities and local regulatory requirements. However, drawing on experience with dozens of clients, we have seen that the most successful outsourcing initiatives share a common thread: thoughtful analysis and planning around personnel considerations.

STRATEGY, RATIONALE AND THE OUTSOURCING MODEL

A hedge fund manager's approach to outsourcing is the primary driver of personnel strategy. In the broadest terms, there are two basic approaches that can be employed to outsource operations:

- **Full or "True" Outsourcing:** Transitioning one or more operational functions to a third-party administrator while ceasing to perform that function in-house. This approach transfers workload, cost, and a portion of the operational risk to a third-party provider, but the manager loses a measure of control over the process.
- **Shadow Outsourcing:** Transferring official re-

sponsibility for one or more functions to a third-party while continuing to perform in-house processing. There are a variety of motivations for this approach. Shadow outsourcing is often a temporary function to help the manager gain comfort with the administrator's processes. In others instances, it's a permanent fixture of the model.

Naturally, shadow outsourcing requires a substantial number of operations personnel to continue with current functions, while full outsourcing creates more redundancy. Where the primary objective is cost savings, a full outsourcing model may be the choice. However, for managers seeking to enhance operational controls, support improved business resiliency, or meet investor/regulator demands, a shadow model may be more appropriate.

ADDRESSING THE SHIFT FROM FUNCTIONALITY TO OVERSIGHT

Outsourcing changes the role of operations personnel. Internally managed operations focus on processing and data delivery. With outsourcing, that focus shifts to an oversight and governance function. Regardless of the model employed, operations expertise can contribute to the success of the outsourcing programme.

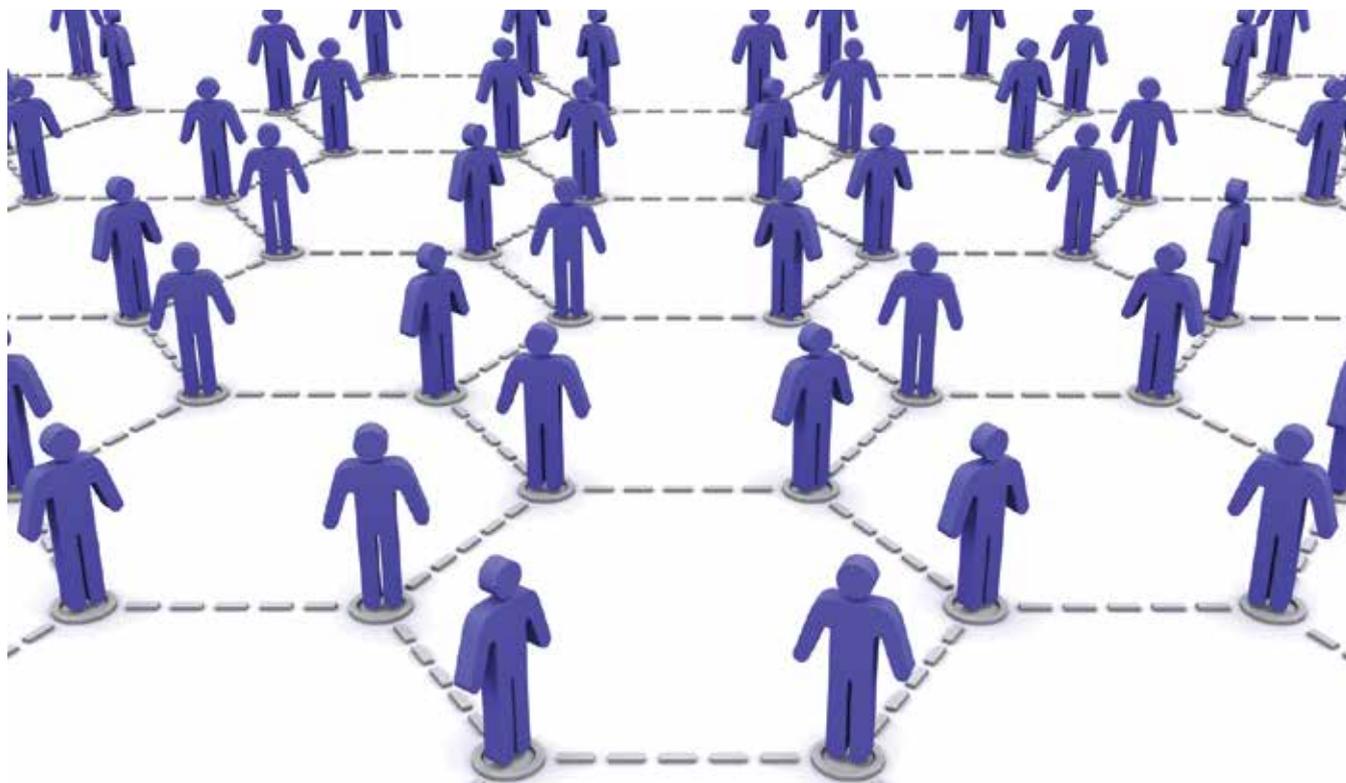
- **Relationship Management:** Outsourcing requires a dedicated contact to manage the relationship, ideally someone with operations expertise. It is tempting to assign this role to front-office personnel or executive leadership to maximise cost savings, but in our experience, doing so can distract key personnel from their primary roles, while an operations-oriented lead tends to yield a more effective relationship.
- **Business Process Design:** Outsourced activities do not occur in a vacuum – they must be integrated with the rest of the manager's operating model. Effective integration requires operationally minded professionals who can think through controls and workflows for integrating outsourced and in-house functions, design effective change management procedures, and collaborate with the administrator to design efficient processes.
- **Governance and Quality Management:** Oversight is most effective when performed by individuals who can evaluate and understand the strengths and limitations of technology and operations platforms. Operations professionals have the expertise and background to understand the administrator's controls, assess the quality of their work, collaborate to resolve issues and generally manage the relationship efficiently.

Dedicating time and thought to managing this change helps promote long-term success for an outsourcing initiative. Specifically, managers should consider the level of resources required to support oversight and governance and develop a training plan to help personnel transition to their new responsibilities.

DEVELOPING A PERSONNEL STRATEGY

Managers have several options when considering personnel matters: they can retrain and redeploy resources to other functions, seek a "lift-out" arrangement and transition staff to the administrator, or reduce staff. Staff reduc-

“ THE MOST SUCCESSFUL OUTSOURCING INITIATIVES SHARE A COMMON THREAD: THOUGHTFUL ANALYSIS AND PLANNING AROUND PERSONNEL CONSIDERATIONS ”



tions are still common when cost control is the primary objective. But in an age when firms have leaner personnel structures, the redeployment of operations personnel is an increasingly popular option: institutions can leverage that additional capacity to pursue goals that had been postponed or cancelled due to resource constraints.

In all instances, this decision is driven by several key considerations:

- **What are the strategic goals of outsourcing?** Managers seeking reduced costs may elect to downsize, while institutions seeking better technology, reduced risk, or other advantages may elect to lift out or redeploy staff.
- **What is the scope of the outsourcing relative to the business?** Mapping out the function(s) to be outsourced, their strategic importance to the business, and how many people are affected relative to the size of the organisation can all help drive decisions around where to convert staff to oversight functions, where to redeploy them, or when to make them redundant.
- **If additional resources were available, how would they be used?** Redeployment scenarios need to be assessed within the context of the organisation's priorities and staff skill sets. The value of redeployment is maximised when the skill sets of staff align with the organisation's strategic goals. Still, looking at the future and having a strategic view of post-outsourcing resource deployment, helps management make informed decisions around an overall personnel plan.

COMMUNICATIONS AND TRANSPARENCY

When addressing personnel matters, communication – timing, content and transparency – is critical. Handled

well, outsourcing can actually be a positive experience for staff, but failure to manage the message appropriately can have significant consequences.

Outsourcing understandably generates anxiety among staff at all levels of an organisation: operations teams are concerned about their futures, while other groups are concerned about how outsourcing will affect their daily routines. We have seen our clients manage this issue most effectively by using staff communication plans that are flexible, transparent and endorsed by senior leadership.

- **Timing:** While it is common and understandable to limit disclosure of outsourcing plans in the initial phases, having contingency plans to accelerate communication is a good practice, as rumours and speculation can damage employee morale, increase turnover and lower productivity.
- **Preparation:** Be prepared to discuss the strategy and rationale for outsourcing, as well as answer questions around timing, effect on non-outsourced staff, training and redeployment plans, and severance/job placement services, depending on the situation.
- **Transparency:** While announcing major changes can be a very difficult message for senior management to deliver, transparency, honesty, and sensitivity can aid significantly in helping employees cope with change and mitigate its effect on morale and productivity.

Outsourcing presents each organisation with a unique set of challenges. The benefits can be substantial, but outsourcing does have profound effects on personnel. Acknowledging these, actively managing employee concerns, and having a well-considered strategic plan are critical success factors in any outsourcing initiative. ■