

Finance and Accounting Outsourcing MANAGEMENT TOOL

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What is the issue?

Finance and accounting outsourcing has evolved and become more complex in recent years.

Why is it important?

Finance and accounting outsourcing relationships can help you to focus on your core business and become more competitive.

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Introduction to the Concept

When it comes to finance and accounting outsourcing (FAO), a *reintroduction* may be more useful than an introduction. After all, the concept has been around since the first half of the 20th Century when companies began using payroll providers.

Today, an FAO capability is more likely to call to mind an on-demand, portable business function than a payroll clerk. For example, rather than a North American company building a new finance and accounting function for its new Asia operations from the ground up, the company is best to work with a payroll provider to develop finance and accounting processes that operate as a modular local capability the company can plug in for half the cost and half the time that replicating the processes would have required.

The modern conception of outsourcing (i.e., multi-year, multi-process outsourcing) emerged in the early 1990s when oil and gas company BP transferred 300 employees to an outsourcing center in Scotland that was managed by the firm now known as Accenture. Over the

next 15 years, outsourcing became synonymous with *off-shoring*, a politically charged term that referred to a process where the services were provided, often in India, China, and other developing economies where labour arbitrage promised, though did not always deliver, major cost savings to outsourcing buyers.

Today, business has entered a new era of outsourcing.



Outsourcing has, for the most part, shed its controversial undercurrents and its absolute focus on cost reduction. Cost savings is a prominent objective of all forms of outsourcing, but it is far from the only goal. This is true of FAO, which, like other forms of outsourcing, has evolved into a more prevalent and better understood management tool.

The maturation of FAO is evident in the language that outsourcing experts and practitioners use when they speak of this management tool. They are more likely to use the term “multi-shoring” than “off-shoring” to describe outsourcing processes that save money, give the company access to better talent and more effective technology, and allow the company to scale new and existing operations in a more agile way. More than one major outsourcing consultancy has pronounced the “end of outsourcing,” as a cheeky way to emphasize that outsourcing has become part of the procedural fabric of the modern extended enterprise and its services portfolio. In a similar way, the concept of “e-business” is now obsolete since the vast majority of companies have incorporated the Internet into its operations.

Today, FAO qualifies as an important knowledge area. Managed effectively, FAO relationships can help professional accountants:

- reduce finance and accounting administrative costs
- access innovative processes and technology
- access top talent and leading knowledge
- enable greater agility when ramping up or ramping down operations in new geographies (i.e., agile scalability)
- support major restructuring efforts or other types of business transformation
- more effectively evaluate when an existing process should be targeted for improvement or possibly moved to a shared services center (both of which are common alternatives to outsourcing)

What is FAO?

Although certain forms of FAO have existed for decades, modern FAO typically involves multiple finance and accounting processes and longer-term relationships (in the range of three-, five- or even 10-year contractual commitments). FAO covers a wide collection of processes, ranging from highly transactional activities (e.g., accounts payable, accounts receivable, and payroll) to processes that require greater and more complex degrees of knowledge and analysis (e.g., treasury, tax strategy, or financial planning and analysis).

The same processes can help manage the challenges, risks, and opportunities of transactional as well as more analytical forms of outsourcing. However, knowledge- and analysis-based FAO require greater management discipline and oversight because these activities require more nuanced judgements and decision-making. The same requirements apply to finance and accounting processes with regulatory compliance and/or financial reporting requirements and implications.

Why is FAO Relevant?

FAO is relevant because outsourcing has matured into a widely accepted management tool used to generate value. This is the case because outsourcing has proven effective in helping companies address skills shortages, scale operations with more agility, reduce costs, improve the effectiveness of existing processes, and gain access to leading methodologies, technology and processes.

The ability to determine whether or not FAO makes sense for a company as well as selecting an FAO provider and managing an FAO relationship is also highly relevant today (and will be into the foreseeable future). According to Everest Group, a worldwide total of approximately US\$7 billion in FAO contracts will come up for renewal during the next two years. Everest and other outsourcing advisory and consulting firms estimate that total global FAO spending ranges from approximately \$30 billion to \$100 billion. The range is

so large because many projections factor in captive shared services and new hybrid models that contain elements of shared services centers and traditional FAO.

As FAO and other forms of outsourcing become more common and mature, capability within the extended enterprise will become more important to manage FAO well. Doing so will require an understanding of how FAO has evolved, its pros and cons, and when (or whether) it makes sense for an organization to implement FAO.

In the past, FAO's value primarily hinged on the cost savings delivered by labour arbitrage, today, FAO's value hinges on cost savings, access to better capabilities, greater scalability, and more. In the past, managing an FAO relationship was a part-time job. Today, management of any outsourcing relationship has matured into an accepted discipline, a full-time profession.

In the past, outsourcing relationships often qualified as a stressful, rearview mirror exercise: performance metrics were produced and evaluated weeks or even months after the fact, leading to testy exchanges between buyers and providers. Today, daily, even real-time measures of FAO performance are available, increasing the precision and effectiveness with which these relationships can be managed.

Successfully managing FAO also requires an understanding of the entire "FAO Lifecycle." This lifecycle includes three steps (making the decision to outsource, selecting a provider, and managing the relationship), each with numerous sub-steps, all of which are presented in the FAO guidance document.

How Professional Accountants Add Value

There are a number of reasons why an understanding of FAO has value for professional accountants:

- to enable professional accountants to fulfill the finance and accounting function's duty to support organizational strategy as effectively and efficiently as possible
- to identify new opportunities to improve how the finance and accounting function supports the organization's strategic objectives
- to identify more cost-efficient and effective ways to perform existing processes within the finance and accounting function (via outsourcing and/or via process improvement initiatives and moving processes to shared services centers)
- to help the finance and accounting function invest more resources and time in higher value activities (e.g., financial planning and analysis, evaluating growth opportunities, conducting mergers and acquisition due diligence)
- to apply their risk management expertise to ensure that current and potential FAO investments strike a profitable balance between risks and benefits
- to identify and share leading outsourcing management practices with counterparts in other parts of the organization, namely information technology (IT) and human resources (HR).

This publication is one in a series on *Finance and Accounting Outsourcing*. A Guidance document is also available on our website. For additional information, please contact Carol Raven, Principal, Research, Guidance & Support at 416-204-3489 or email craven@cpacanada.ca



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