Outsourcing Financial Management and Accounting
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Overview

Outsourcing has developed considerably during the past decade. The times of trial and error in outsourcing financial processes are over, and there are several reasons why outsourcing now makes more sense than ever. Cost savings - as important as they still are - are no longer the main driver for outsourcing. Instead, the decision to outsource is increasingly based on business-outcomes and strategy alignment. Many companies have realized that routine-focused processes are not within their core capabilities – and that outsourcing brings a range of benefits.

Particularly relevant for CFOs in the process of evaluating, selecting and implementing the outsourcing of financial processes, this white paper examines the latest trends and provides valuable pointers regarding what to look out for and what to avoid.

What is Outsourcing?

Outsourcing is a contractual agreement between two businesses, with the outsourcer contracting out a business function or process previously handled in-house. A commonly used term is ‘Business Process Outsourcing’ (BPO). Often the outsourced process is IT-intensive, which makes it easier to transfer process management to an external service provider.

Typical processes that are outsourced include customer relationship management, procurement, personnel management, eInvoicing, financial management, product development and logistics.

‘Offshoring’ and ‘offshore outsourcing’ are also commonly used terms, meaning outsourcing to distant, low-cost locations.
Recent Developments in Finance Outsourcing

It is probably fair to say that outsourcing was at the peak of the S-curve or hype cycle (see Figure 1) in the first years of the millennium. Since then, it initially slid down the curve but has now started its rise to the plateau of productivity. Though outsourcing is commonly combined with cost-reductions during difficult economic times, it is clear that the cost-saving aspect is becoming less important as the motivation for outsourcing. Today, in addition to cost-savings, choosing to outsource is increasingly seen as a strategic decision – one that enables companies to strengthen their strategic focus, whilst also adding flexibility and agility across support functions in particular.

1 Gartner uses hype cycles to describe the over-enthusiasm surrounding a new technology or concept, and the disappointment that typically follows after the initial introduction of new technologies. Hype cycles also show how and when technologies move beyond the hype and become widely accepted. According to Gartner, hype cycles aim to separate the hype from the reality, and enable decision-makers to decide whether or not a particular technology or concept is ready for adoption. (Wikipedia)
When outsourcing financial processes, a clear development path can be seen (see Figure 2). Companies have moved from distributed financial management to more centralized models, a key reason being the emergence of process automation tools. Where it has been possible to build a consistent architecture using similar automation tools across different parts of the company (be it multinationally or country-specific), it has become apparent that it pays to centralize certain financial processes, such as invoice processing or accounts payable. This can often lead to the setting up of a Financial Shared Service Center (FSSC) to serve the business units. These two phases entail intense process restructuring and automation to improve efficiency.

The final phase in this development path – the outsourcing of financial processes – makes obvious sense. Processes that have been automated can be better serviced by external specialists who can deliver not just more cost-savings, but also extra benefits such as flexibility, best practices and, clearly, the transformation of fixed costs into variables.

Interestingly, process automation is making offshoring increasingly obsolete. Now that it is possible to fully automate processes, the cost of personnel is no longer a deciding factor. Processes run automatically, and the role of personnel (in-house or outsourced) is to concentrate on value-adding tasks that often require deep and specific expertise, and/or local knowledge and language skills. The same development can be seen in large global companies locating their service centers in their home countries, and even repatriating offshored service centers.

Important lessons have been learnt from the early phases of outsourcing financial processes. Some companies that have outsourced have ended up bringing their operations back in-house. Clearly, this is typical of the hype cycle phase when outsourcing was sliding down the curve, with unrealistic expectations being brought down to earth. Outsourcing financial processes is not necessarily straightforward. It requires specialist expertise from the service provider, and research shows that in the past, some service providers have not been mature enough to build a solid case for finance outsourcing. But despite such disappointments, the potential for success is undeniable – especially from a strategic perspective when outsourcing is used to support companies with a flexible service model. To outsource successfully, companies need to undertake a thorough situational analysis and base their outsourcing decision on clear objectives. It is also imperative to use proven service providers who can demonstrate relevant experience and expertise.

A global IT company had already automated its key financial processes. Having further identified that invoice workflow and travel claims processes were not its key functions, the company decided to outsource them – achieving improvements in efficiency and scalability that supported the growing global business. Outsourcing also solved the company’s back-up resource issues during vacations.
Motives for Finance Outsourcing

If you could organize your finance function from scratch, how would you do it? The question presents CFOs with an interesting challenge, given today’s opportunities for achieving a networked finance function. Indeed, imagining that you are starting with a blank sheet of paper enables you to free yourself from preconceptions that may be a legacy of past decisions. By being open to new ideas, new ways to organize, it is possible to achieve a carefully considered view of which requirements are truly specific to your business, and which are generic.
The outsourcing market is also developing. Customers have been disappointed by service providers that have not been able to deliver a solid outsourcing service. But as the concept is climbing up to the plateau of productivity, there are new players in the market who combine a deep understanding of financial processes with strong IT and finance management expertise. They have wide experience across different industries, and can identify which of your processes are genuinely industry-specific and which are generic. Separating these is the key to organizing the optimum finance function. Specialist outsourcing partners can now build productive best practices into the processes. With an open collaboration model, they can provide you not just with an outsourced solution, but also with added value across your finance function. As part of the relationship, you benefit from new solutions as they emerge, without having to invest in development work.

Performing a base analysis of the finance function can be viewed from the perspective of achieving four critical goals (see Figure 3):

- Purposeful finance
- Efficient finance
- Agile finance
- Transparent finance

Figure 3: Viewpoints in analysing the requirements of the finance function set-up

For a detailed understanding of these viewpoints, see our white paper “Financial Management 2010 and beyond.”

"Be open to new ideas, new ways to organize, and you can achieve a carefully considered view on which requirements are truly specific to your business, and which are generic.”

A key point of such an analysis is that it is strategy-based. Companies have missions and goals in their value creation, and those should be the basis for organizing any support function. Implementing this strategy requires the support of in-house finance personnel: it should be their primary task. More and more companies are identifying other areas in finance that benefit from automation and, possibly, from outsourcing. The latest economic downturn has highlighted how fluctuating business can be. Having just about survived the difficult times of redundancies and spending cuts, it now seems that we should be anticipating growth and scaling up our business again. Agility across the business is fundamental for surviving today’s changing circumstances. Outsourcing non-core functions can clearly increase flexibility. On the cost side, it turns fixed costs into variables; and on the personnel side, it enables easier up or downscaling.

So it is not just about costs. Organizing the finance function is a strategic decision – which is why it should be analyzed without preconceptions. It is about planning for a revenue-based strategy, looking for business outcomes for the company. CFOs may have to recognize that some of their previous decisions are no longer valid.

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What then are the characteristics of successful finance outsourcing? What should be taken into account to ensure you achieve the outcomes you want? How does genuine outsourcing work?

If the analysis described above reveals outsourcing as a valid option for optimizing your financial processes, you should already have an idea of the strategic motivation for the project.

Being sure that outsourcing delivers value for the company is clearly crucial. The project can be seen as a simple process (Figure 4):
Select an experienced and expert vendor
Finance outsourcing is not easy and a key driver of success is working with the right partner. Look for a vendor that has hybrid expertise in finance processes, automation and IT solutions (including system integration). All of these capabilities are building blocks of effective finance outsourcing. A good partner will put effort into analyzing your situation, requirements and priorities, ensuring that your solution supports your business goals with efficiency, flexibility and transparency.

Take a holistic view of your finance function
It is essential that you have a clear, holistic understanding of your present working methods and cost structure. These are the starting points for achieving the objectives of synchronizing your outsourcing process with your business operations, improving your efficiency and benefiting from new best practices. Another obvious goal is the reduction of process costs. Taking a holistic view and treating the relationship as an entity, enables you to avoid hidden costs. The right service provider will make sure that the whole process is reviewed to prevent double work.

Negotiate a clear contract and SLA
A professional service provider will have a template for a Service Level Agreement that works as a basis for discussions and refinements. Clearly, you need to allow time for drafting and reviewing the contract. It is important that both parties share the same understanding of obligations and responsibilities, leaving no room for misinterpretations. This supports commitment on both sides.

A good SLA is mutual and contains responsibilities for both parties. Efficient and high-quality collaboration requires both parties committing to specific responsibilities and deliverables. In some cases, third parties may be involved, and their role must be equally clarified.

Though the SLA usually sets the goals and performance levels for service quality, and non-performance/exceptions are usually sanctioned, at its best the agreement plays a crucial role in the development of a successful, collaborative relationship. In addition to measurements related to process-handling, response and throughput times, a well-drafted SLA contains elements aimed at developing the collaboration model and improving performance.

Agree on the collaboration model and communication
Many recent developments in outsourcing follow from the arrival of Web 2.0, the development of collaboration tools, and improved communication between client and service provider. Online communication tools provide a new kind of platform for the client-service provider relationship. It brings the service provider’s resources closer to the client’s organization and helps to facilitate smoother day-to-day communications.

But client-service provider communications encompass far more than day-to-day issues. Regular meetings should be part of the relationship and its management. Agree on them in the SLA – and stick to them. Plan the meetings so that they are target and solution oriented, helping to deepen the value of the relationship. Make best practices a topic that is regularly discussed. The best service providers will propose and drive this themselves as part of their offering – beware any vendors that don’t.

Agree on the KPIs
A crucial part of managing a successful outsourcing relationship is measurement. The SLA contains the KPIs that you agree to follow, and which will form the basis of your regular meetings. Set targets for improvement. A professional vendor will proactively suggest improvements as your relationship matures. Communication and measurements are the backbone of building quality into your relationship.

As a client, it is easy to build unnecessary check points for double-checking the service provider’s work. When working with expert outsourcing companies, the KPIs and review meetings that are part of the relationship management should be more than enough to safeguard quality.
Communicate with your team
Outsourcing can be a sensitive issue within organizations. Personnel easily equate it with terminating employment contracts. Yet in most cases, it is a question of moving internal resources to more challenging and interesting tasks. As ever, regular, candid, transparent communications with your team are extremely important. Outsourcing is a major change process and should be treated as such, using the best practices of change management.

Plan and execute a professional launch
Once the contract is agreed and you are about to move tasks to the service provider, make sure that your company as a whole is aware of the change and of its goals. Be firm but positive about your decision, and make sure everyone has clear instructions on how to work with the new, outsourced process. It is your responsibility as part of your client-vendor partnership. You are responsible for the input to the process, and we all know how important quality input is for process output.

Manage the relationship with the vendor
Even though you are outsourcing the work, you are not outsourcing ultimate responsibility and accountability. Your job is still to manage the relationship, as you manage your own personnel. With the right service provider, of course, you will have less to manage – and you will get extra benefits that are not so readily available in-house. At best, you will be among the first to find out about changes in stakeholder requirements, you will enjoy best practices and technology developments as soon as they emerge, and you will not have to do the day-to-day management work.
Outsourcing is – after years of trial and error – becoming a viable option in the organization of financial management and accounting. Companies have learned about the processes, and there are now professional service providers who combine process competence with automation tools. But there are key points that need to be carefully thought through to build the basis for successful outsourcing.

The SLA is the focal point in a successful outsourcing relationship. A well-negotiated agreement, with clear roles, responsibilities and KPIs, is the basis for success. Mutual commitment comes from clarity – it pays to invest time in the process of drafting the contract. Outsourcing is about collaboration, and the relationship requires proactive management. But with a solid agreement and active collaboration, clear, tangible benefits will follow: flexible, agile and transparent financial management that supports your core business.
About Efima

Efima improves the financial management of large and mid-sized companies with world-class solutions and services. With solid experience in digital processes, Efima builds fit-for-purpose financial management for our clients, based on their business goals. Efima’s services include cloud applications, outsourcing and consulting.

We believe in:

**Purposefulness**
in financial management, built to support each of your key business goals.

**Efficiency**
based on automation, competence, measurements and economies of scale.

**Agility and flexibility**
to manage all the internal and external changes that can impact your business.

**Transparency**
that breeds both function efficiency and business integrity.

Efima is committed to building efficient, purposeful and transparent financial management for our clients – financial management that contributes to your success. We carefully study each client’s current situation, future prospects, strategy and objectives. Then we design the unique solution that enables top tier management to make the right decisions at the right time.

We are passionate in our delivery of superlative client service. We listen, analyse, solve, implement and follow up. Our team’s solid experience and commitment ensure excellent and immediate results, as well as providing a basis for continuous learning and the refinement of best practices. We do this to support your competitiveness and to optimise the support your finance team delivers for your business.