

Finance & Accounting Outsourcing Services – Dependencies and Benefits



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Positioning Statement

Since the industrial revolution, one of the main objectives of the finance department has been to ensure optimal utilization of available cash and credit resources. The main purpose has always been to procure and allocate funds in such a way that the day-to-day activities of other functional departments such as production, sales, inventory etc, can be carried out in the most cost-effective manner. In this context, the basic objectives may not have changed much over the years, but certain aspects have certainly been altered, keeping in mind the changing market dynamics. Due to increasing Globalization and rising competitive pressures, the finance & accounting department is now required to keep a tab on its own expenses and overheads, just like it did earlier for other functional departments. Hiring outsourcing services is currently the most preferred solution for achieving the above objective and more and more businesses are opting for it. Among other things, this white paper will focus on identifying and defining operational dependencies as related to finance & accounting outsourcing services. Benefits available through outsourcing will also be discussed in this document.

Introduction

With the global BPO market currently estimated at around \$149 Billion, there is certainly no need for any other hard evidence to prove the effectiveness, popularity and applicability of outsourcing services. Since the overall contribution of finance & accounting outsourcing to the global BPO pie is still relatively small as compared to other outsourcing services such as customer support and telemarketing, it also implies that this particular domain has great potential for future growth. In view of the emerging trends, it would not be wrong to say that in the near future, the finance & accounting outsourcing domain will witness increased automation, propelled by new technological advancements and rising operational costs. It will be a time when Service Level Agreements will define outsourcing contracts, most of whom will be based on transaction-based pricing.

Benefits of Finance & Accounting Outsourcing

With increased focus on financial budgeting and risk management, finance & accounting services are helping businesses reduce operational costs and make optimal utilization of available financial resources. By focusing on critical tasks such as augmenting accountability, promoting open governance and creating flexible systems, service providers are able to achieve desired levels of ROI (Return On Investments) and cost savings.

Apart from quantifiable benefits, finance & accounting outsourcing services also allow businesses to...

- ✓ improve the quality of offered services through increased process integration and synchronization
- ✓ derive greater benefits through ongoing cost reduction plans and initiatives
- ✓ reduce the cost of the support services itself through careful planning and fast-track implementations

Identifying Dependencies To Secure Future Potential

While there is no denying the benefits of finance & accounting outsourcing services, both clients and service providers still need to carry out due diligence exercises before actually commencing on a predetermined action plan. This is necessary because achieving the two main objectives – efficiency improvements and cost reductions – both at the same time is certainly not an easy task. There are other dependencies as well such as the quality of services offered by the provider, which need to be accounted for before actually starting on a finance & accounting outsourcing project. Explained below are some crucial dependencies common to most finance & accounting projects.

Scale of operations:

While developing an appropriate road map for future implementations, businesses would be required to determine the actual quantum of processes that need to be outsourced. Starting with small pilot projects may be the right idea, but the ultimate aim should be to increase the total number of processes being outsourced. This is necessary because the full potential of critical benefits such as cost savings can be realized only when economies of scale are created. For achieving this, both the client and the service provider need to sit together and plan out a common vision, depending on their own specific strengths and weaknesses.

Optimal resource utilization:

Targeted goals and objectives can be achieved only when efforts are made towards ensuring optimal utilization of available resources. As such, both the client and the service provider need to work out effective strategies that can help reduce duplication and promote standardization in all of the processes that have been outsourced. Reducing headcount may not actually be in the plans, but it is something that can always be made possible if the above objectives are achieved in the desired manner. It will eventually make it easier for businesses to derive critical benefits such as cost savings and increased efficiencies, both at the same time.

Outsourcing Location:

Deriving benefits such as cost savings depends a lot on the actual location of the service provider. This makes it necessary that providers operating out of low-cost locations be given preference. However, since maintaining the quality of offered services is also essential, it is necessary that the track record of service providers also be assessed prior to signing an outsourcing contract. Preference should also be given to providers who have their own facilities and the required infrastructure. Starting from scratch may be necessary in certain cases, but since it involves huge capital investments, it's always better to utilize pre-existing assets and resources of the service provider.

Technology:

The success of finance & accounting outsourcing projects also depends a lot on the type of technology being used by the client and the service provider. Since internal and outsourced processes are often interlinked, a mismatch in technology used at the client's end and the provider's end can create complications and operational problems that can easily affect business interests in an adverse manner. Another problem is with technology itself, in that some are highly effective yet costly whereas others cheap yet ineffective. A good solution for this would be to ignore both the extremities and instead choose the middle path, i.e a technology framework that is both affordable and effective. Simulation testing provides the easiest way for selecting the most cost-effective technology.

Cross Cultural Differences:

Most outsourcing firms carry out their operations from development centers located in Asia and South America, something that naturally results in cross cultural differences. Perceptions and work ethics vary in different locations and if these factors are not accounted for, it would become difficult for both the client and the provider to work on a common goal and achieve the targeted objectives. The best way to overcome this problem is to open more communication channels between organizational members working for the client and those working for the service provider. The basic aim should be to promote informal interactions that are necessary for understanding the finer intricacies of different cultures in different countries.

Implementation:

To a great extent, success also depends on how the actual implementations are carried out. If the blueprint or master-plan is overlooked, the whole project can skid off the tracks, adversely affecting business interests. To prevent this, it would be a good idea to put in place tracking systems that can assess actual performance and report the same to the management. Potential problems and issues can then easily be nipped in the bud before they actually become huge and unmanageable.

Run-time program management:

The importance of control systems does not diminish even after the implementations are over. That is because complacency can set in anytime and can have a negative impact on the quality of offered services. This is why specialized control systems are required that can help in run-time program management. This can be both software and hardware, and is often used for conforming to requirements stated under SLAs (Service Level Agreements).

How To Identify Processes That Can Be Outsourced?

Before actually committing to an outsourcing contract, it is necessary that existing finance & accounting processes be segregated into two different categories, namely, processes that can be outsourced and processes that need to remain onshore. The points given below can help businesses make the best possible selection.

Processes need to remain onshore if...

- ✓ they relate to strategic policy matters and initiatives
- ✓ their nature is such that the required authority cannot be delegated
- ✓ they are part of a top-level decision making process
- ✓ they are necessary for sustaining the competitive edge
- ✓ they are governed by statutory requirements that prohibit outsourcing
- ✓ they require constant direct interaction with end-users
- ✓ they require specific skills and expertise that is not available at an offshore location

Processes can be outsourced if...

- ✓ they are rule-based and do not require constant changes
- ✓ they do not require direct contact with end-users
- ✓ they can be put through a great deal of automation
- ✓ they cannot result in excessive business risks
- ✓ they can be pushed as commodities and consumed likewise

How to Manage Change with Ease – Basic Guidelines

Managing change has always been a big problem and in that context finance & accounting outsourcing is certainly not an exception. When the decision is made in favor of outsourcing, functional changes are most likely to occur and even though the changes might be for some good purpose the whole process is so very complicated initially that it becomes difficult to determine the right path. However, things can be made easier if prescribed guidelines are followed as described below.

Evaluating Feasibility:

In order to avoid potential future complications, it is better to evaluate critical issues before actually initializing the outsourcing project. Here's some basic guidelines for service providers that will help them assess feasibility of the outsourced projects.

- ✓ Get a clear cut idea about the specific characteristic and overall volume of the project
- ✓ Identify existing processes and systems that are presently being used
- ✓ Assess the most likely affect of the potential changes on organizational members
- ✓ Understand local issues, rules and regulations to ensure optimized services

Starting Small – Pilot Projects:

When it comes to managing change with ease, nothing works better than starting with small pilot projects, having limited risks and liability. The basic guidelines are described below.

- ✓ Include as many SLAs as humanly possible in the pilot project
- ✓ Set up automated tracking and control systems that can provide live inputs to clients
- ✓ Assess results and segregate them into successes and failures
- ✓ Identify reasons for both success and failures
- ✓ Prepare a road map for future full-scale projects based on the pilot projects

Regular Upgrades and Improvements:

Once the client has given the green signal for full-scale implementations, service providers can start working on achieving targeted goals and objectives. Regular upgrades and improvements will help in sustaining the momentum and make it easier to overcome transitional problems and issues. Here's what providers can do to ensure regular upgrades and improvements.

- ✓ Compare actual results with those described under SLAs to determine the potential scope of improvement
- ✓ Launch performance based incentive schemes to boost employee morale and motivation
- ✓ If needed, hire services of external advisors and experts
- ✓ Encourage organizational members to provide their own inputs and suggestions
- ✓ Evaluate all of these without bias and check if there's actually an idea that can help improve the quality of offered services or reduce operational costs

Value Additions:

Upon successfully meeting basic client needs and requirements, the next objective should be to provide value added services. This can be done by following prescribed guidelines given below.

- ✓ Analyze end-user requirements and check if there are certain needs that can be satisfied using the same basic processes
- ✓ Analyze the process itself and check if it can be tweaked around to suit specific needs without creating too much discomfort

Conclusion

Businesses worldwide have already stated that they are benefiting from finance & accounting outsourcing services, but since this is a relatively new domain, it makes sense to follow the prescribed guidelines and take the necessary precautions. Whatever be the task, be it selecting the right service provider, segregating existing processes into different categories to determine their applicability to outsourcing, or managing the resulting transition, it would always help if the prescribed guidelines are followed. The stakes are often high and since even a small slip up can have a huge impact on end-user satisfaction levels, it becomes necessary that dependencies be identified and accounted for. Only then will it be possible to derive the full potential of finance & accounting outsourcing services.