Outside upside:

Finding focus through finance outsourcing

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An Accenture report written in cooperation with the Economist Intelligence Unit

Special focus

Executive summary

As a faltering global economy puts pressure on corporate results, executives are increasingly turning to outsourcing to reduce costs and boost productivity. Outsourcing providers pledge to perform back-office functions, including finance and accounting, more cheaply and efficiently than companies can do on their own, thanks to economies of scale, standardized processes and advanced technology. For many companies, the equation of high-quality service at lower prices is irresistible, particularly when outsourcing allows them to focus on their core businesses.

"In the boom market companies were much more focused on revenue growth," says Stewart Clements, global managing partner for Accenture Finance Solutions, which specializes in business process outsourcing of finance and accounting. "Now they are more focused on the fundamentals of value creation, and we're seeing a lot more interest in outsourcing finance and accounting."

Cost savings are the main motivation for many executives. The cost reductions of 20-50% reported by companies that have outsourced finance are tantalizing, especially at a time when companies are wary of investing in operations that do not touch the customer. "The real advantage of outsourcing is cost savings, cost savings, cost savings," says Kenneth Joyce, CFO of Amkor Technology, the world's largest provider of contract semiconductor assembly and test solutions.

Yet, as this report underscores, cost cutting is not the only story. Some companies are ambitiously using outsourcing as a vehicle to promote change, for instance as part of a transformation designed to shift corporate structure from a more traditional organization divided along geographic lines to one organized globally along business lines. "Some companies see outsourcing as a strategic weapon for change," explains Mr Clements.

Whether confined to a single, straightforward operation like payroll or applied to a broad range of finance and accounting functions, however, outsourcing is not without its risks. Corporate lore tells of outsourcing projects gone awry, ventures that wasted money and sapped executive time rather than delivering the expected benefits. Even outsourcing successes can pose unexpected complications and demand painstaking management.

This report, prepared by Accenture in cooperation with the Economist Intelligence Unit, aims to help senior executives grasp the opportunities and defuse the risks posed by finance and accounting outsourcing. Drawing on insights from experienced executives around the globe, it sets out guidelines for a successful strategy to outsource finance and accounting functions.

The study draws on two main research undertakings:

- The Economist Intelligence Unit conducted a wide-ranging survey of global corporate leaders in January-February 2003. In all, 236 senior executives took part, representing all major geographic regions and a wide range of industries. One-third of the respondents were CEOs, chairmen, CFOs or senior finance executives. Detailed survey results are presented in the appendix to this report.

- To supplement the survey results, the Economist Intelligence Unit and the Accenture Institute for Strategic Change conducted over 40 interviews on finance outsourcing with CFOs, other senior finance executives and industry experts. Their insights complement the survey findings, providing an invaluable qualitative counterpart to the quantitative data yielded by the survey.

Based on this research, the report draws ten main conclusions:

- **Finance outsourcing is gathering momentum.** As companies remain preoccupied with costs and determined to focus on their core businesses, outsourcing is primed for growth. Of our survey respondents, 71% expect finance outsourcing to become more prevalent over the next three years. 30% are currently outsourcing finance and accounting functions, and a majority of these think the arrangement has been very successful (8%) or successful (57%).

- **Outsourcing reduces costs ...** Companies with metrics in place to measure their gains report significant savings from outsourcing finance and accounting functions. For example, Rhodia, the French speciality chemicals company, reduced spending by 30% in two years. And a commanding share (66%) of survey respondents saw "lower costs" as the primary benefit of outsourcing.

- **... but the benefits go further.** Reduced costs are not the only—or always the most significant—benefit. Outsourcing enables companies to focus on their core competencies. It relieves finance managers of responsibility for repetitive or generic business tasks, allowing them to concentrate on high-level management and other value-added activities. And by enabling companies to review and reshape entire business processes with an outsider's discipline, it can help companies execute ambitious transformation plans. Survey respondents agreed, with 55% pointing to a sharper focus on core competencies and 32% to increased business productivity on the part of the finance team as outsourcing benefits.

- **Awareness of potential risks is high.** Outsourcing is often perceived as a risky undertaking. Many executives worry that it means surrendering control over vital business functions, Alarmingly, 82% of survey respondents who outsource finance admitted they had no metrics in place to measure the success of the arrangement.

and survey respondents cited numerous potential pitfalls, including valuable data falling into competitors' hands (52%), the costs of outsourcing exceeding expectations (48%) and the erosion of in-house knowledge (45%). Yet only a minority of respondents whose companies had engaged in finance outsourcing reported negative results, and the most serious complaint of the executives interviewed for this report was that implementing finance outsourcing was both more time-consuming and more personally arduous than they had initially anticipated.

- **"Commodity" tasks are first in line.** Executives are keener to outsource repetitive, generic finance processes than operations requiring higher level analytical thinking. Payroll is a common starting point; this was the activity to have been outsourced by the greatest share (27%) of survey respondents. Niche and specialist areas, such as tax planning and compliance, are natural outsourcing targets, as are turnkey solutions that help companies enter unfamiliar or difficult markets. Budgeting and forecasting were activities respondents deemed least suited to outsourcing. Strategic finance decisions will always remain in-house but, where companies have gained confidence in the practice, even some parts of management reporting are being outsourced.

- **Precise deliverables are essential.** To keep an outsourcing arrangement on track, contracts need to clarify in specific terms the client's needs and the outsourcing provider's responsibilities. Fees should depend on performance, and incentives should be structured to ensure continuous improvement. Metrics should be unambiguous. Alarmingly, 82% of survey respondents who outsource finance admitted they had no metrics in place to measure the success of the arrangement. Faith in outsourcing providers may offer an explanation: 71% of respondents pointed to mutual trust as a factor critical to the success of finance outsourcing.

- **Outsourcing can cause discord.** Even if finance and accounting staff are to be transferred to the outsourcing provider rather than made redundant, short-term upheaval is inevitable. Resistance is to be expected from employees and departments whose jobs are to be transformed or eliminated, and firm, diplomatic management is needed to ensure that the outsourcing provider receives the information it needs to carry on the processes it is inheriting. Executives who have overseen such transitions recommend providing explicit timetables and designing severance packages to encourage a smooth transfer of knowledge.

- **Sustained management is crucial to success.** Given the vested interests that are likely to oppose any move to outsourcing, sustained and explicit support from top management is crucial to implementation—and beyond. "There is no magic wand where you get to say, 'Tomorrow it is not my job'," says one finance director. Two of the main barriers to outsourcing identified by survey respondents were cultural resistance (50%) and vested interests defending jobs, budget and power (40%). Company leaders must remain engaged to overcome these obstacles.

- **Outsourcing can help transparency.** Heightened scrutiny of company accounts in the wake of Enron and other scandals could make outsourcing seem more risky. But 73% of survey respondents thought that finance outsourcing could improve the quality of a company's disclosure. Outsourcing can create a healthy separation between managers trying to achieve performance and accountants charged with measuring it, reducing the temptation to massage the figures.

- **Shared services can be the first step.** Shared service centers (SSCs) offer many benefits, whether outsourced or internal. By standardizing and centralizing finance and accounting operations, and by integrating disparate IT systems onto a single, unified platform, SSCs can help reduce headcounts and consolidate individual regional or country back offices into a few streamlined operations. Costs can be cut further by moving to low-cost sites, such as India, Mexico or Eastern Europe. SSCs are tricky, time-consuming and often costly to set up. Yet once they are up and running, they can ease the integration of acquisitions, speed the execution of change and promote cost-saving innovation. Many companies that have pioneered SSCs are now also leading the way in finance outsourcing.

MOL: Outsourcing in Eastern Europe

Outsourcing finance and accounting offers a powerful tool for newly privatized companies, especially those from central and Eastern Europe. It provides a quick and inexpensive way to implement modern accounting processes that help win credibility with global investors.

Magyar Oil and Gas (MOL) had four main goals when it outsourced its accounting and treasury risk management in 1999, says Michel-Marc Delcommune, CFO of the Hungarian energy giant. It wished to cut costs by 40% while improving quality and efficiency. It wanted "to send a strong message of focus" to the world that it was serious about its commitment to concentrate on its core activities. It aimed to ease the integration of back-office systems for future acquisitions. And, if outsourcing finance and accounting worked, MOL would outsource other areas.

"They were balanced objectives," says Mr Delcommune. Having cut the number of accountants from 1,200 in 1995 to 406, it has transferred them to a shared service center. It also smoothly added the accounting functions of Slovnaft, the national oil company in neighboring Slovakia, to the shared service center in November 2000. MOL plans to repeat this soon with its newest acquisition, TVK, the region's dominant petrochemical producer.

While Mr Delcommune believes the company could have generated cost savings on its own, working with a third party stimulated process change that would otherwise not have occurred. "Without outsourcing, the cost objectives would have been met, but in an organization that would have been frozen in its status of November 1999," explains Mr Delcommune.

Transparency and outsourcing: Separating measurement from performance

In the wake of high-profile accounting and reporting scandals, executives cannot afford a misstep. “Accounting is probably the most sensitive area right now of any aspect of corporate governance,” observes Thomas Jones, vice chairman of the International Accounting Standards Board (IASB) and former principal financial officer and head of shared services at Citicorp.

Not only has the greater scrutiny made companies focus much more closely on accounting transparency, accuracy and integrity, but the new Sarbanes-Oxley law in the US requires senior management to attest personally to the veracity of company accounts. This personal liability puts a new burden on the CFO and makes the outsourcing decision more complex.

Some executives are clearly nervous about heightened risk. “How am I going to certify today that my accounts got done properly if I outsourced it all?” asks Paul Idzik, COO of Barclays Capital, the investment banking division of Barclays Bank. Mike Devine, CFO of Coach, the US marketer of upscale handbags and accessories, concurs, stating “Sarbanes-Oxley will make people think twice about outsourcing even some of the more routine tasks because of the potential loss of control.”

A lot probably depends on how good a company’s controls are to begin with. “If you outsource to a reputable outfit, you may get higher quality than you had under your own steam. On the other hand, if you operated great controls and you moved to some outfit that is not as capable, controls could worsen,” says the IASB’s Mr Jones.

The spotlight certainly should remind those who do outsource accounting to maintain good controls. “When you have direct control over something, you have more ability to be confident of the integrity of what you are getting. I don’t think that stops you from outsourcing, but it certainly would emphasize the need to make sure you have appropriate controls around your outsourcing arrangements," says Peter Marriott, CFO of ANZ, the Australia and New Zealand banking group.

Reassuringly, however, many executives find that outsourcing works to increase transparency. Working closely in cooperation with their clients, outsourcing providers standardize processes in compliance with accepted accounting rules. Moreover, they can enforce a healthy separation between the managers charged with delivering performance and the accountants tasked with measuring it, hopefully reducing the opportunity to apply "creativity" to results. "With outsourcing, you have improved segregation of duties and much more highly-defined processes and controls," says Stewart Clements, global managing partner for Accenture Finance Solutions. "Therefore, it improves control and visibility." Indeed, 73% of our survey respondents thought that outsourcing can raise the quality of a company's disclosure. "We don't have to worry about audits," attests the director of finance control at a UK-based multinational that outsources its statutory financial reporting.

The transparency debate aside, the fact that Sarbanes-Oxley shortens the time frame for preparing external reports could encourage accounting outsourcing. Large multinationals already need up to an extra month after they process transactions to collect and consolidate data for the first external report. "One of the major pressures of the Sarbanes-Oxley ruling was that companies legally had to issue reports more quickly, and the time frame would get shorter in each year into the future," says Michael Sutcliff, Accenture's global managing partner, Finance & Performance Management (F&PM).

The impact on internal reporting and the financial information used by management is as important as the gains from greater transparency in disclosure. Some companies report that outsourcing has restored the credibility of internal financial data, and in so doing that of the finance department. The numbers, executives say, have become more "believable", reinforcing their value as a reliable foundation for business decisions.


SAVINGS DEPOSIT TICKET

Introduction

If you want something done right, do it yourself. This adage still rings true for many things, but not in the increasingly cost-conscious, core-focused world of international business.

More and more companies are choosing to source corporate functions, including finance and accounting, from external business partners. Particularly in an era in which cost cutting tops the corporate agenda, outsourcing finance and accounting—especially the generic, back-office functions that are not core to a company's identity—is inspiring fresh enthusiasm around the world.

The logic is simple: if someone else can perform non-core activities more cheaply, why keep them in-house? The case is particularly clear if quality, processes and service improve as costs go down. Sophisticated finance software and IT networks that automate routine tasks and connect far-flung corporations via a single platform fuel the trend, as does the emergence of locations that can provide skilled labour at a very low cost—Bangalore, say, or Prague.

If they aren't outsourcing already, companies are at least taking a look. "We have begun to think about outsourcing broadly," says Paul Idzik, COO of Barclays Capital, the investment banking division of Barclays Bank, which plans to make a decision on an initiative later this year. "You'll see more and more outsourcing in the future," predicts Amkor's Mr Joyce, particularly as Internet and high-speed data transmission networks develop, and positive experiences and improving provider skills enhance the appeal to line executives. Indeed, 71% of survey respondents expect outsourcing of finance and accounting to become more prevalent over the next three years.

Yet there are still holdouts and doubters. Some executives worry about losing control over sensitive finance operations, or about having to spend more rather than less money to secure high-quality service. Others worry whether outsourcing providers have the insider knowledge and skills to grasp company needs. Still others prefer to seek the benefits on their own, by consolidating numerous regional or country-based finance operations into a handful of shared service centers that drive efficiencies through centralized and standardized processes.

This report explores both the factors behind the move to outsource finance and accounting and the arguments of those who remain wary. And it presents useful advice from successful practitioners for those now embarking on the process. It is divided into four main sections:

- Reaping the benefits of outsourcing;
- Overcoming doubts: Weighing the risks of outsourcing;
- Shedding non-core functions: What companies are outsourcing; and
- How to make outsourcing work.

The report concludes that, for those who manage the process well, outsourcing offers benefits extending from simple cost savings to providing an impetus for far-reaching strategic change.

Special focus

Inside or out: The options for shared service centers

Many companies turn to shared service centers (SSCs) to gain the cost advantages that come from centralizing and standardizing back-office functions in a single location, or at several regional sites. Success in centralizing finance and accounting often rests on the adoption of a single company-wide IT platform, such as that offered by SAP. But "pain" is a word executives often mention in describing the experience of consolidating back-office finance functions, both because country accounts tend to defy reconciliation to a single standard, and because the personnel affected feel their jobs are threatened and fight any change. The decision to create an SSC can thus be difficult, even when there are strong cost arguments.

Some companies choose to build SSCs internally, whereas others outsource their creation. ChevronTexaco, for instance, uses an internally run SSC in the Philippines that acts as an accounting back office for eight Asian countries—Singapore, Malaysia, Hong Kong, Thailand, New Zealand, Cambodia, Indonesia and the Philippines. The BOC Group, the global gases company, likewise chose the in-house option. It split its finance operation into two groups: financial services, which are handled through a shared services arrangement, and a financial management group that reports to the business heads. This structure fulfilled a long-discussed ambition to "move more strategically into decision support and value-added resources," says Dave Brooks, the company's finance director. It also cut costs by 30% in three years.

By contrast, Magyar Oil and Gas (MOL), the giant Hungarian energy concern, turned to an external provider to set up an SSC for finance and accounting.

The arguments against outsourcing an SSC mirror those for refraining from outsourcing in general. Companies worry about surrendering control, sacrificing company-specific expertise and, in many cases, antagonizing labor unions. They also argue that they have the global reach and standardized technology to reap the same benefits on their own.

Yet there are good arguments for venturing outside:

- **Financial impact.** An external center offers the potential to begin reaping cost savings immediately while avoiding a hit to the P&L. With cost overruns a frequent lament of executives overseeing development of SSCs, having the supplier carry the investment risk can be a distinct advantage.

- **Performance guarantees.** The contracts governing outsourced centers generally stipulate ambitious service level targets, with incentives for improvement and stiff penalties for shortcomings. Accountability is thus greater. Similarly, SSCs can be implemented more quickly using outside partners than internally, because contracts specify deadlines, generally very aggressive ones.

- **Impetus to change.** Without an outside stimulus, companies tend simply to replicate processes from existing regional or country operations. With internal service centers, there is little recourse if staff do not perform. Moreover, it is usually the finance chief who champions centralization and standardization, and the CFO's attention can easily be diverted, leaving projects unfinished. In order to spark a change in mentality and transform the organization and processes, an outside provider can better impose the discipline needed to get out of old ruts.

- **Focus on improvement.** Finally, going outside helps to free up time for management to focus on improving processes, as the outsourcing supplier takes on responsibility for day-to-day supervision of staff. "Sometimes it's better to manage a supplier than your peers," explains one executive. Even when the jury is still out on costs, companies see very real benefits from this change in focus.

One way to reconcile the desire for control with the benefits of outsourcing is a joint venture or similar collaboration. This was the route taken by Hong Kong-based retailer Dairy Farm, which set up a 50:50 joint venture with Cap Gemini Ernst & Young in 1999 to provide accounting and procurement services. The venture—OneResource Group—has exceeded expectations: not only has it halved Dairy Farm's finance and accounting costs, but it has also created a stand-alone business serving other companies. Thomas Cook UK, which has entered into an innovative "co-sourcing" arrangement with Accenture, is considering similar revenue-generating possibilities.

Reaping the benefits of outsourcing

Outsourcing finance and accounting offers a range of benefits, with cost savings and process efficiencies topping the list. Eliminating headcount with the incumbent wages, real estate and insurance costs is one big component of savings. The impact is especially dramatic if employees are moved to the outsourcer rather than made redundant (a process that can eliminate severance payments), or if the activity is moved to a lower-cost offshore center. Other levers for savings include simplifying and standardizing operations and the underlying business rules, automating procedures through the use of new technologies, and exploiting economies of scale by offering similar services to a wide range of corporate clients.

Cost and efficiency gains can be dramatic. When Ingersoll-Rand, the US-based equipment and machinery manufacturer, outsourced accounts payable in 2002, the contract promised savings of 30.1% from the day of signing, and an annual 2.2% productivity gain net of inflation over the seven-year life of the contract. The company is now exploring a complete outsourcing strategy in Europe. Rhodia, the French speciality chemicals company, outsourced the transactional part of its European finance and accounting functions to a lower-cost center in Prague, reducing spending by 30% in two years. Thomas Cook UK, the German-owned leisure group, slashed its headcount by 2,000 and unloaded 13 of 24 buildings, reaping UK£19 million in benefits. In finance alone, staffing fell from 410 people to 168.

Standardizing systems and consolidating operations in a shared service center, whether run by the company itself or by an outside provider, is a common route to reduce finance costs. "If you are going to run a payroll, running one payroll for a hundred thousand people is a lot cheaper than running 30 or 40 payrolls," explains Tom Jones, vice chairman of the International

Benefits of outsourcing

% (Respondents could choose more than one answer)

Lowering costs and maximizing efficiencies	66%
Enabling sharper focus on core competencies	55%
Increasing business productivity of CFO and other finance staff	32%
Accessing best-of-breed talent and technology	32%
Improving quality of service	26%
Delivering greater transparency and openness in the eyes of the market	25%
Improving quality of finance-related data and analysis	24%
Handing off development and compliance risks	15%
Enhancing disaster recovery and continuity planning	13%
Catalyzing wider organizational change	12%
Other	3%

Source: Accenture & Economist Intelligence Unit survey Jan-Feb 2003.

For a full list of tables see the Survey results on page 38.

Accounting Standards Board (IASB) and former principal financial officer and head of shared services at Citicorp. Citicorp found that paying one invoice from outside the US cost two to six times more than paying the same invoice from its shared service center in Tampa, Florida. Since Citicorp paid millions of invoices, the savings on that alone were huge.

Cost savings are the primary attraction of outsourcing finance and accounting. They were the top choice among possible benefits of outsourcing, chosen by 66% of the executives who responded to our survey. But the benefits of outsourcing extend beyond costs alone. Among the other gains identified by our survey respondents, the most important included a sharper focus on core competencies (selected by 55%), increased business productivity of the CFO and other finance staff (32%), and access to best-of-breed talent and technology (also 32%).

The executives interviewed for this report endorsed the same hierarchy of benefits: core focus, value-added management and access to specialist intellectual capital.

Focusing on the core business

Dairy Farm, a Hong Kong-based retailer with annual sales of US$4 billion and 48,100 employees across Asia, has outsourced nearly all the finance functions for its Hong Kong operations to OneResource Group, which operates two shared service centers, one in Hong Kong and one across the border in Guangzhou, China. For Dairy Farm, "the biggest benefit has been allowing them greater focus on their core business," says Tom Reilly, OneResource Group's chief operating officer. "The return on 'greater focus' is enormous and probably not totally quantifiable."

For start-ups like Exostar, an online trading exchange for the aerospace and defense industry, outsourcing promotes focus by helping to avoid the distraction as well as the cost of having to invent a complete back office. "The company, in its early stages, could focus on its operational needs, reduce the staff it initially needed to hire, and gain efficiencies in terms of the transaction processing itself," explains John Hamilton, Exostar's senior accountant.

Making finance a strategic function

Shifting finance managers from routine tasks to more value-added undertakings, such as business planning, forecasting and analysis, is another aim. Travel giant Thomas Cook UK pursued this logic. "We had to separate the running of the function away from the management time," says Marco Trecroce, group business transformation and operations director. "It would allow us to sell holidays." By ensuring that management time is less consumed by such generic concerns as managing vacation and coordinating schedules, outsourcing helps companies "achieve and maintain an external focus", with more time and attention available for the customer, says Exostar's Mr Hamilton. "By outsourcing, we are buying management and management time," concludes Michel-Marc Delcommune, CFO of Magyar Oil and Gas (MOL), Hungary's largest company.

Even finance managers whose former subordinates are taken on by the outsourcing provider find they can breathe a sigh of relief. "A superior-subordinate relationship is very different from a vendor-customer relationship," explains Dave Erickson, CFO of National Dry Cleaners Inc (NDCI), a US chain of 350 retail dry cleaners. When NDCI moved its headquarters from Phoenix to Kansas City, a new outsourcing provider, Core 3, took over the finance back office, complete with NDCI's staff. The changed relationship has eliminated the most time-consuming motivational aspects of personnel management, says Mr Erickson. "It has let us focus on our business and has been a huge time saving for upper management."

Tapping specialist knowledge

Outsourcing is also a cost-effective way to gain access to specialized knowledge, particularly tax and regulatory expertise. That was one of Amkor's motives in outsourcing payroll processing and internal audit. "You can develop your own in-house expertise but you have the cost of the personnel and of various tax services," says Amkor's Mr Joyce. "You have to remain up-to-date on all the federal, state and local payroll tax withholding rules and regulations."

Access to the latest technology and software without the steep initial investment caught Colgate-Palmolive's attention when it outsourced its US payroll. "The long-term savings come because you always have state-of-the-art systems from the leading expert in the field," says Hans Pohlschroeder, VP assistant treasurer at the giant consumer goods company.

Niche areas are also natural choices for outsourcing, as are operations in new or remote markets. Barclays Capital outsources accounting for complex but infrequent deals and for its Brazilian unit. Particularly in complex markets like China, outsourcing providers can offer turnkey solutions, including both market entry strategy and back-office functions, says Matthew Podrebarac, Accenture's Asia Pacific lead for Finance & Performance Management (F&PM).

Fast lane for growth: Outsourcing in Asia

Although not yet as common as in the US or Europe, finance outsourcing is gaining acceptance in the Asia Pacific region. Companies that decide to outsource finance and accounting functions tend to be multinationals running operations across the region. As elsewhere in the world, cost savings are an aim of any outsourcing arrangement, "but there are many more drivers beyond cost in Asia Pacific," explains Matthew Podrebarac, Accenture's F&PM lead in the region.

Rapid growth is one such driver. While most of the world's developed economies are languishing, emerging Asian markets—China in particular—still offer multinationals the prospect of buoyant expansion. Companies entering the region often need to launch operations quickly, yet are unable to commit the resources required to staff a fully-fledged back office. In this situation, outsourcing offers a "turnkey" solution that lets companies get down to business more quickly.

Local skill shortages are another driver. In emerging Asian markets, such as China, Vietnam or Thailand, finance talent is in short supply, particularly at more senior levels of management. Traditionally, companies have filled the gap by bringing in expensive expatriate staff, either from their home markets or from elsewhere in Asia. Outsourcing is a cost-effective alternative; what's more, it allows finance executives to concentrate on meeting business challenges rather than instituting standard processes and training up back-office personnel. "Management talent can be scarce in Asia so you want it to be focused on key, core issues," notes Mr Podrebarac.

As in the rest of the world, finance outsourcing is fairly new compared to other functions, such as IT and human resources. Whereas 83% of Asia Pacific respondents to our survey reported outsourcing some business functions, a far smaller share—29%—said they outsourced finance and accounting processes. Responses here matched those in other regions. As elsewhere in the world, too, most Asia Pacific respondents rate their experience with finance outsourcing a success, with 8% calling it "extremely successful" and 54% "successful". Only 5% rated it "unsuccessful", with the remaining 32% seeing little improvement on in-house processes.

Despite this positive track record, some Asian companies (or Asian units of global companies) prefer to use shared service centers to deliver efficiency and a core focus. Lens maker Bausch & Lomb is one example. Spurred by a global benchmarking exercise that revealed finance costs as high as 4.4% of revenue against a benchmark of 1.2%, the company set up three SSCs (in the US, the UK and Hong Kong) to supersede 350 customized financial systems. The Hong Kong SSC now covers eight of the company's 12 Asian markets, with the other four slated for integration over the next few years. Johnny Wong, the SSC manager, says that the biggest benefit has been that standardization and consolidation have allowed the company to leverage its financial resources.

Another example is Li & Fung, a Hong Kong company that manages supply chains for 700 companies, including US retailers Kohl's and The Limited. To support its far-flung business units—120 in all—the company has centralized IT, HR and accounting functions in a shared service arrangement. The company's Operation Support Group (OSG) manages an IT database of 6,000 factories that is accessible to the entire supply chain; offers recruitment and training services; and pools the cash of all business units, providing internal loans and also trade financing to clients.

Frank Leong, Li & Fung's CFO, is a proponent of outsourcing for some functions. Fluctuating demand makes IT programming an ideal candidate, for instance. "I can easily scale up or down," explains Mr Leong. The same goes for training. But finance remains within the OSG, largely for control reasons. "Our customers' needs are always changing and this requires a lot of interfacing with our accounting staff," says Mr Leong. "We need to control the change ourselves."

Yet other Asian companies are opting for finance outsourcing, especially for transaction-heavy functions. Particularly for executives concerned about control problems, Dairy Farm, a Hong Kong-based retailing group, offers an instructive success story. Part of the Jardine Matheson Group, Dairy Farm runs a US$4 billion business in supermarkets, hypermarkets, convenience stores, drugstores and restaurants. As part of a transformation drive spurred by a new management team in the late 1990s, the company forged a joint venture with Cap Gemini Ernst & Young to create a center to handle finance, accounting and non-trade procurement—OneResource Group.

Concerns about control help explain the decision to opt for a joint venture, but OneResource Group has since evolved into what is basically a stand-alone, market-facing business. It operates two multi-client shared service centers, one in Hong Kong and one across the border in Guangzhou, China, and provides finance, accounting, procurement and order management services. It currently has about 200 employees, the same number that were originally taken on from Dairy Farm's finance and accounting department. Only 90 of that original total are still working on the Dairy Farm contract, however, because the rest are occupied with new business.

OneResource Group has exceeded its owners' expectations. Cost savings have been substantial. OneResource Group constantly benchmarks its results and (factoring in its growth of about 30% since it was set up) estimates that it has saved nearly 50% on what it would have cost to maintain the previous finance structure. Dairy Farm has also saved on its capital outlays, which were taken on by the outsourcing partner. More importantly, Dairy Farm has gained freedom to focus on its core business. Finance staff now provide decision support, while jobs such as transaction processing have been transferred to the lower-cost center of Guangzhou.

Results like these suggest that finance outsourcing has a bright future in Asia, particularly given the emergence of prime low-cost outsourcing destinations in India, the Philippines and China. Indeed, 72% of Asia Pacific survey respondents predict that the practice will become more prevalent over the next three years—a finding consistent with results for the US and Europe. "For companies in Asia with sizable finance teams, outsourcing offers a powerful tool to enhance performance," concludes Andrew Friars, Asia Pacific lead for Accenture Finance Solutions.

Promoting transformational change

Finally, outsourcing can prove an invaluable tool in corporate efforts to institute change, as in Trinity Industries' strategic refocus on core competencies, along with a plan for lower costs, upgraded technology and systems, and better service. "Where we are heading in outsourcing is that we are trying to have a more strategic impact," says Jake Farkas, a director at Trinity Industries, a major US manufacturer of construction and transportation equipment.

Outsourcing's biggest role in this respect is to act as a catalyst to break down entrenched habits and prompt a rethink of established processes. Companies often find it difficult to stimulate change internally because employees so closely identify the processes they perform with their own jobs.

Yet many executives who embark on outsourcing mainly as a cost-cutting initiative are surprised at the impetus it gives to change. At Thames Water, a UK water utility, for instance, the creation of a shared service center was designed to reduce costs and improve coherence. But Craig Anderson, director of finance and support services, reports that simply housing finance and accounting people in the same office has stimulated constructive questioning of established processes. Efficiency was an anticipated outcome, but "the thing I least expected was having 100 champions to drive added value," says Mr Anderson. "The cost function is just the opening act," agrees John Peter Savi, head of shared services for Telecom Italia. "What people really want are the other things—transparency, closing quickly, quality."

Thomas Cook UK: "Co-sourcing" for transformational change

In 2001, when Thomas Cook UK needed a fast turnaround, it turned to an outside partner to help centralize finance, IT and HR administration in one shared service center. "If we're going to transform and restore profitability from big losses to a big gain, we have to be smarter about how we run the business," says Marco Trecroce, group business transformation and operations director.

So far the strategy has worked. While its campaign included a number of other initiatives to cut costs, improve margins and vertically integrate operations, the UK-based travel company credits the co-sourcing arrangement with being a major part of its recovery to a UK£36 million profit in 2002. "We hit our milestones. Savings have dropped to the bottom line," says Mr Trecroce.

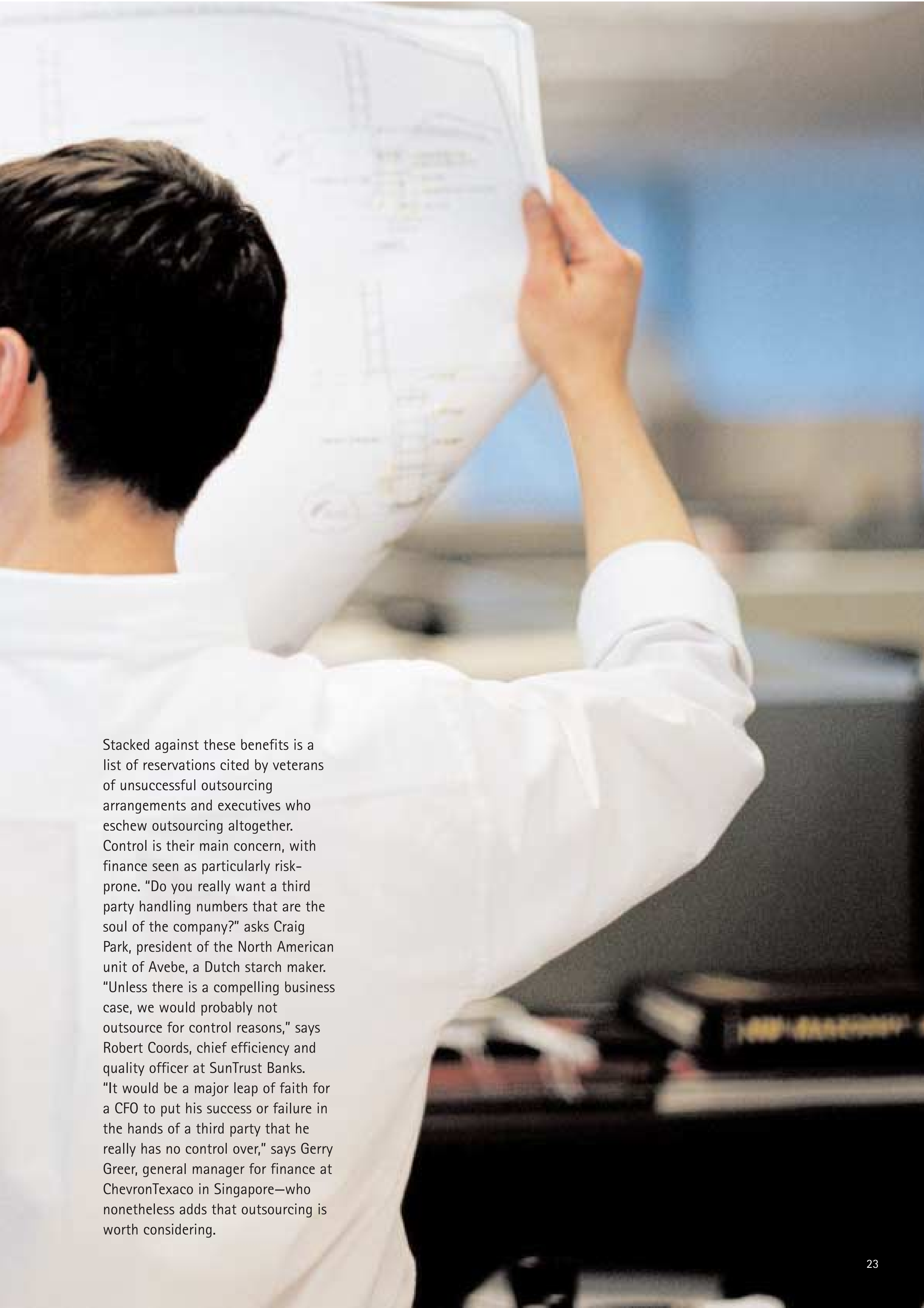
Thomas Cook UK decided it just didn't have the skills or the money to set up a shared service center on its own, especially given the magnitude of the other tasks on its managerial plate. It also didn't wish to move in small steps. "We needed to do the full-immersion technique. Taking bits of the process was not going to help us," says Ian Ailles, managing director of specialist businesses.

The key criteria for a partner were skills, speed to delivery and flexibility in smoothing costs over a longer time period, rather than having to pay for everything upfront. Thomas Cook UK also wanted a true partner, hence the terminology "co-sourcing" rather than "outsourcing". Indeed, its partner, Accenture, shares in risks and savings, which are reinvested in the business. "It really comes down to both organizations working in a collaborative way if they are going to steer through this incredible change programme and be successful," says Mr Trecroce.

Innovation was another priority. So much so that it is one of five metrics upon which Accenture's bonus depends. Further reinforcement comes from Accenture's ability to continuously enhance revenues and reduce costs. The partner is finally judged on compliance with service level agreements and cultural fit. "We measure them on their ability to fit in. If they don't, their compensation is reduced," says Mr Trecroce.

In the future, Thomas Cook UK may look to extract more savings by moving the center to a lower-cost geography. "We have a very aggressive plan to transform the organization within the next four years. We are looking for more ways to reduce our costs while improving on service," says Mr Trecroce.

Overcoming doubts: Weighing the risks of outsourcing



Stacked against these benefits is a list of reservations cited by veterans of unsuccessful outsourcing arrangements and executives who eschew outsourcing altogether. Control is their main concern, with finance seen as particularly risk-prone. “Do you really want a third party handling numbers that are the soul of the company?” asks Craig Park, president of the North American unit of Avebe, a Dutch starch maker. “Unless there is a compelling business case, we would probably not outsource for control reasons,” says Robert Coords, chief efficiency and quality officer at SunTrust Banks. “It would be a major leap of faith for a CFO to put his success or failure in the hands of a third party that he really has no control over,” says Gerry Greer, general manager for finance at ChevronTexaco in Singapore—who nonetheless adds that outsourcing is worth considering.

Primary drawbacks of finance outsourcing

% (Respondents could choose more than one answer)

Risk of valuable data falling into competitors' hands	52%
Risk that cost of outsourcing exceeds expectations	48%
Level of in-house knowledge and expertise erodes	45%
Risk that quality of service deteriorates over time	42%
Difficulty of switching provider if need be	35%
Difficulty of monitoring ongoing relationship with provider effectively	27%
Governance and compliance issues more difficult to address with organizations outside direct control	24%
Risk that outsourcing provider goes bankrupt or changes ownership	23%
Difficulty of measuring gains in performance effectively	19%
Level of innovation on the part of the provider is lower than expected	9%
Other	4%

Source: Accenture & Economist Intelligence Unit survey Jan-Feb 2003.

For a full list of tables see the Survey results on page 38.

Another worry centers on proprietary data. The risk of valuable data falling into competitors' hands was the only one of a list of potential outsourcing drawbacks chosen by more than half of survey respondents. Although Colgate-Palmolive has considered outsourcing some cash management functions in Europe, Mr Pohlschroeder says, "It is probably better from an internal confidentiality approach for us not to go with a third party at this point."

Nurturing knowledge and expertise in-house is a third concern. Coach, a US marketer of luxury handbags, believes it can provide more-tailored solutions itself at lower cost. "I like to develop the expertise and competencies in-house," says Mike Devine, the CFO. "I believe you can get to a better, more-customized answer more cost effectively, because you are not paying someone else's overhead and profits." Coach outsources only its internal auditing of inventories.

Some companies feel they are too big to outsource. Financial services giant HSBC, for instance, argues that it has the scale and skills to go it alone. "What does an outsourcer bring that we don't already have?" asks Douglas Flint, CFO of HSBC Group. The company can set up facilities in low-wage locations like India, where it already has operations—and outsourcing would subject it to a 17.5% value-added tax that it would not incur if it employed people in the UK. Other companies, by contrast, feel too small to benefit. "We have a small finance and accounting function of five to six people who tend to be multi-skilled," says Avebe's Mr Park. "That is better value than outsourcing," he argues—although Avebe does outsource payroll and some auditing.

A disinclination to standardize is another obstacle. "At ANZ, we are dynamically changing the group structure and the way we approach finance," says Peter Marriott, the banking group's CFO. "Outsourcers

How successful has your experience been with finance outsourcing?

Outsourcing has been extremely successful	8%
Outsourcing has been successful	57%
Outsourcing has brought no significant improvements on in-house arrangements	28%
Outsourcing has been unsuccessful	5%
Outsourcing has been extremely unsuccessful	2%

Source: Accenture & Economist Intelligence Unit survey Jan-Feb 2003.

For a full list of tables see the Survey results on page 38.

work on economies of scale and on trying to standardize and simplify. If you are constantly changing and making exceptions, you do not get these economies." The Australian bank likes its finance staff to work closely with business units and fears this collaboration would suffer with outsourcing. Norsk Hydro also worries that a third party will make it harder to communicate when resolving tough accounting issues. "If you have a large volume of non-repetitive transactions, which have to be given qualified treatment, then it's more difficult to outsource," says Alf Alviniussen, SVP of corporate finance at the Norwegian energy company.

Proponents of outsourcing are quick to counter that many of these reservations dwell on perceptions and apprehensions, rather than on the track record of outsourced projects. Veterans of successful arrangements emphasize, in particular, that outsourcing does not entail a loss of control, but rather makes possible an enhanced form of control. "It's very difficult to convince people that they are actually gaining control because outsourcing will free up valuable resources and time to really focus on the things they want to focus on," explains Peter Salerno, Ingersoll-Rand's enterprise-programme and BPO-relationship manager.

Confidentiality is another worry that outsourcing advocates are eager to lay to rest, arguing that outsourcing providers offer the same level of professionalism and confidential service as banks, with which most companies share much seemingly sensitive internal financial data. "There are good examples of competitive companies sharing a common outsourcing platform and obtaining confidential results," observes Mr Clements of Accenture.

The overwhelming majority of companies that have tried finance outsourcing are satisfied with the results, judging from the survey data. Only 7% called the experience unsuccessful or extremely unsuccessful, whereas 65% described it as "extremely successful" or "successful". These upbeat results suggest that perceived risks may be less daunting than some executives imagine—although the list of complaints about suppliers from the dissatisfied survey respondents included insufficient expertise, high costs and shabby service. If nothing else, then, the concerns voiced by skeptics provide a helpful catalog of the doubts that executives will need to assuage in order to win a green light for outsourcing from company leaders.

Shedding non-core functions: What companies are outsourcing

For all the enthusiasm about the benefits of outsourcing, finance remains a function that executives prefer to handle with care. There's a great deal more eagerness to outsource routine, transaction-heavy tasks than more analytical, value-added ones. "If you have a high-volume, repetitive, vanilla type of transaction, you are leveraging off economies of scale and it works quite well," says HSBC's Mr Flint. "You couldn't outsource the thinking, but you could outsource the brute force," quips the IASB's Mr Jones. "We keep the role of the orchestra directors and the thinking," explains one European finance director.

Our survey respondents concur. Payroll is the function most commonly outsourced, chosen by 27% of survey respondents. Budgeting and forecasting is at the other end of the scale, with 85% saying they had no intention to outsource, and only 1% already having done so.

The first functions to be outsourced are typically "commodity" functions, such as payroll, which entail little company-specific knowledge, and which do nothing to differentiate the company from its competitors. But companies should exercise caution in tagging activities with this label. "Be very careful what you talk about when you say commoditized functions, because many are not as commoditized as you may think," warns Rudy Hirschheim, an outsourcing professor at the University of Houston. No one wants to find that an activity with embedded core competencies has been outsourced, as reversing the process is difficult.

This is not an insurmountable hurdle, however, as a number of companies have moved beyond payroll to outsource a range of transaction-oriented finance services, such as accounts receivable and payable. Some pioneers are even pushing back the boundaries past basic service

What companies are outsourcing now and plan to outsource in the future

	Already outsourced successfully	Intending to outsource
Employee payroll	27%	26%
Tax compliance and planning	21%	27%
Financial systems application support	16%	27%
General and financial accounting	13%	24%
Travel and expense processing	12%	31%
Accounts receivables and collections	12%	20%
Accounts payables and vendor management	9%	21%
Financial reporting	7%	19%
Other finance functions	7%	32%
Management report preparation and analysis	6%	17%
Treasury and cash management	4%	11%
Financial risk management	3%	18%
Budgeting and forecasting	1%	11%

Source: Accenture & Economist Intelligence Unit survey Jan-Feb 2003.

For a full list of tables see the Survey results on page 38.

provision to include performance reporting and business analytics. Talisman Energy, one of Canada's largest oil and gas producers, for example, recently asked its supplier, which already handles financial reporting and budgeting, to provide each budget holder with electronic desktop access to forecasts and budget, accrual and expenditure data.

Others plan to broaden programmes down the road. "As we gain experience and acceptance in the company, we will do more," says Mr Farkas of Trinity Industries, which already outsources payroll, accounts payable and receivable, general accounting, travel and entertainment, billing, and fixed assets accounting. Rhodia, too, is likely to add to its outsourcing programme, under which accounts payable and receivable, part of general accounting and part of treasury for seven European countries is handled out of a shared service center in Prague. "After the stabilization phase, I see opportunities to transfer more, because if you have a process that runs well, you can go far in outsourcing," says Paul Van Beveren, Rhodia's change manager.

Where companies tend to draw the line, however, is at outsourcing finance policy setting and management judgment. Thames Water is typical. Mr Anderson, the director of finance and support services, describes the company's finance function as a pyramid with four tiers. The first tier covers transactional activities such as payroll and accounts payable; the second handles financial and management accounting; the third covers finance decision-making; the fourth is responsible for strategy and policy. Tiers one and two account for 80% of Thames Water's finance headcount. Most of the first tier is outsourced, whereas the activities of the second tier—cash management, reconciliation of cash, statutory reporting and management accounts—are run through a shared service center.

Mr Anderson says Thames Water would consider outsourcing the second tier as well, but he draws a line there. "When you look to outsource management judgment," he says, "you cannot hold the business manager responsible."

Making outsourcing work

To reap the benefits of outsourcing, companies need to plan carefully and resource properly. Making the transition to an arrangement that can save large sums over the long term often requires a substantial commitment of management time.

Owing to the challenges of migrating entire processes to an outside provider (or a shared service center), and to the often delicate staffing issues involved, getting an outsourcing programme up and running requires not only a convincing business case, but also a mixture of conviction, skill, diplomacy and persistence.

What are the golden rules of outsourcing?

Executives who have navigated the process successfully offer the following pointers on making outsourcing work:

Allow lots of time

Win over the bosses

Build a consensus

Do your homework

Craft the contract carefully

Incorporate incentives

Tend to morale

Communicate the upside

Stick to specifics

Measure performance

Ensure proper oversight

Build a partnership

Allow lots of time.

Outsourcing is ultimately a big management time saver. But getting a programme off the ground generally takes a substantial expenditure of time and effort on the part of the executives driving the change—almost inevitably more than they bargained for. At Rhodia, for instance, nearly two years elapsed between the genesis of the idea and the signature on the contract. Navigating the approval process, particularly in decentralized organizations, can be a hurdle: Ingersoll-Rand's shared services group, for example, had to win approval from the presidents, CFOs and CIOs of each of its four main product sectors before it could sign the contract.

Win over the bosses.

Securing buy-in from top brass is crucial to the success of any outsourcing programme. The blessing of top executives and even the board can ease tension and send a signal to other managers to line up behind outsourcing plans. "Change is very difficult, so unless you have alignment with top management throughout the organization, it makes it harder to do," says Trinity Industries' Mr Farkas. Benchmarking against industry standards, such as cost as a percentage of turnover or turnover per employee, is a vital exercise to convey the business arguments for outsourcing. A sales pitch to management should depict outsourcing not as innovative, veterans say, but rather as something that is becoming standard practice.

Build a consensus.

Don't stop at the executive suite, however. Line managers often bridle at outsourcing or shared services because centralization and standardization often seem to threaten their power and authority. Ignoring this opposition is a mistake. "Forcing outsourcing on an organization doesn't necessarily lend itself to the most conducive partnership relationship," explains Anoop Sagoo, Accenture Finance Solutions. Building a team is the better approach. "You don't want to do this with just a small core of people," says Colgate-Palmolive's Mr Pohlschroeder. "You want everyone involved."

Finding a few business-line champions who embrace the idea and lobby for adoption is one good idea. Another is to explain persuasively that outsourcing is not a loss of control but rather a form of enhanced control. "The major issue for most companies considering outsourcing is loss of control," notes OneResource Group's Mr Reilly. "They need to understand that they are not really losing control but changing the way in which they exercise it: instead of controlling employees and every step of the process, they retain control by focusing on the results and demanding that these results be delivered."

Do your homework.

In choosing a provider and agreeing the terms for any outsourcing arrangement, "the key is the work

Critical factors for successful outsourcing

% (Respondents could choose more than one answer)

Mutual trust between outsourcer and outsourcing provider	71%
Concise service level definitions and agreements	53%
Hands-on support for the outsourcing project from the CFO and other senior management	52%
Integrated technology platforms	47%
Good pre-existing in-house processes and systems	37%
Verifiable track record of outsourcer competency	33%
Other	3%

Source: Accenture & Economist Intelligence Unit survey Jan-Feb 2003.

For a full list of tables see the Survey results on page 38.

that you do upfront before you even get into the deal," says Maurice Greaver, president of Greaver and Associates, a management consultancy with a focus on outsourcing. This work includes planning the initiative, exploring its strategic fit and doing an in-depth analysis of existing costs and performance. Provider references should be checked, facilities visited. "Kick the tires and ask a lot of questions," advises Andrea Schaffell, VP for financial services and business management in corporate shared services at Lockheed Martin, which is just starting to develop a strategy for outsourcing finance and accounting. Outsourcing companies have reputations as formidable negotiators, so hiring an intermediary to serve as an advocate can add comfort. "It's important to get an independent broker to help strategize and delineate what might work instead of going directly to the outsourcer," argues Ms Schaffell. Working with multiple vendors is also an option. While a single vendor may extract more savings, it may not be equally effective for all functions and adds concentration risk. At the very least, most companies consider it important for the vendor to be aware that they have other options.

Craft the contract carefully.

Contracts are seldom a day-to-day reference point in successful outsourcing arrangements; a spirit of flexible partnership is more common. It is still vital, however, to negotiate a document that details precisely the obligations of all parties, along with the rewards for success and the remedies for failure—including an exit-clause provision to unwind the agreement in a worst-case scenario. The very process of negotiation forces expectations to be declared upfront, limiting surprises during implementation, and gives the parties a chance to get to know each other and understand their respective needs and concerns. "The contract negotiation process provides a fabulous opportunity to identify and deal with issues that could adversely affect the relationship; negotiations should be conducted in a fashion that lays the foundation upon which the relationship is built rather than be viewed as a battle to be won," says Gregg Kirchhoeffer, partner at Kirkland & Ellis, a large international law firm. "Allocate enough time to conduct negotiations properly."

The level of detail sets the tone of the relationship, establishing a balance between control and initiative. General Motors' service level agreements include desk procedures detailing what to do in some 1,600 situations; Metromedia Restaurant focuses on the result. "We had made a conscious decision not to get involved in how all these things happen as long as they happen to our satisfaction in the end," says Teri Robinson, BPO executive of Metromedia Restaurant Group. "Otherwise, we would not have been able to get the focus on core competencies that we wanted."

Incorporate incentives.

Performance-based pricing can help promote success. The idea is to share risks and gains. NDCI decided its outsourcer would share 30% of first-year savings from devising and implementing new cost-cutting projects. "Not only do we get the same thing for less money, but it is an improving product that gets better over time," says CFO Dave Erickson. Trinity Industries developed additional incentives for accelerated process savings as well as gain-sharing for derivative benefits such as increased cash flow, reduced working capital and supply chain savings. "We aligned buyer needs with supplier incentives," says Trinity Industries' Mr Farkas. "We wanted to make it a win-win partnership. If you just look at cost savings, you will never attain the even greater strategic benefits of outsourcing."

Payment terms should be aligned carefully to promote the aims of the outsourcing arrangement. Rhodia's fixed-price option, for instance, capped overall costs but made service continuity harder than would have been the case with a cost-plus contract. Where continuous improvement is a priority, particularly where there are processes that could be rationalized and standardized, accounting for improvements in the contract is wise. "If you have process issues, moving directly to an outsourcing company is not going to resolve those issues unless you consciously address them as part of the agreement," says Exostar's Mr Hamilton. Because Exostar didn't, changes grew pricey, and bill generation and customer invoices were moved back in-house.

Tend to morale.

Cost-cutting logic means that outsourcing almost always entails redundancies, particularly of low-ranking finance and accounting staff. Even when operations do not move offshore and outright layoffs are avoided (in fact even when finance personnel remain at the same desk in the same building), they generally face the uncertainties of a transfer onto the books and into the authority of an outside supplier. Morale tends to suffer, threatening day-to-day operations and the transfer of knowledge to the outsourcing provider (or shared service center). This poses challenges for the supplier, which will need to motivate disgruntled staff, and the parent company, which will need to keep operations running during the transition.

Communicate the upside.

As many companies have found, however, it is vital to communicate that a shift to an outsourcing provider is not a dead end, and in fact can offer transferred staff new career opportunities in the employ of a company whose core competency, after all, is finance and accounting. Hungary's MOL transferred 406 accountants to Accenture, its outsourcing partner. "Although there has been a headcount reduction," reports Mr Delcommune, "they seem

“It is critical to maintain the right to audit your outsourcing partner with the same rigor you audit your own operations,” said Barclays Capital’s Mr Idzik.

more motivated to work in the core business of the employer than to be the accountants at MOL.” At Thomas Cook UK, Mr Trecroce reports, service center employees initially felt resentment but are now content, having seen “a correlation between their skill sets rising and the transfer.” This has made them convincing advocates of change for other transfer candidates.

Stick to specifics.

To ensure continuity, affected staff need to receive concrete information about their fate as soon as possible. What really convinced MOL’s staff was a side-by-side comparison of their pay slips before the transfer with how their salaries and benefits would stack up after the transfer. Moods were improved further with the provision of a redundancy premium to compensate for lost vested rights. Once employees saw that they were getting a fair deal, Mr Delcommune says, “all the turmoil stopped and people concentrated on making the project itself a success.” Where headcount is cut outright, as is generally the case when finance operations move offshore, it’s important to devise an incentive structure that encourages departing employees to brief and train their successors effectively. At one company that shifted finance operations for six countries to a Prague center, staff slated for redundancy were given nine months notice to allow time for an effective job search, and redundancy payments were only awarded once they had briefed the Prague team.

Measure performance.

Applying agreed metrics not only measures the success of an arrangement but provides data to protect the programme from management backlash. “Benchmarks help us to publicize our successes,” says Mark Abruzino, director of financial shared services at TRW Automotive, a leading maker of automotive safety systems. TRW measures 20 key items for its outsourced payroll and check printing activities, such as the cost of processing a pay slip or invoice. It keeps a scorecard for each. “We are concrete. We want no grey areas,” says Mr Abruzino. Worryingly, 82% of our survey respondents do not have metrics in place to measure the performance of their outsourcing deals. Quantitative gauges should be combined with qualitative feedback from internal customers. Consumer satisfaction surveys can assess whether CFO and business units are getting the service and information they need. Users can be brought in to help design the metrics and governance model. General Motors asked its audit service staff to do this and found it helped with buy-in. And audits should be used to measure and control. “It is critical to maintain the right to audit your outsourcing partner with the same rigor you audit your own operations,” said Barclays Capital’s Mr Idzik.

Ensure proper oversight.

Outsourcing ultimately allows senior finance executives to focus on critical business issues. But that doesn't mean they can wash their hands of an outsourcing arrangement once implementation is complete. Continuous supervision of the relationship is vital, though more often through minding the broad strokes than monitoring the day-to-day detail. "You have to stay with it through the whole life of the contract—forever—to make it work properly and get the benefits," says one UK finance director. "A company can never abdicate responsibility for the function," agrees Mary Lacity, professor of information systems at the University of Missouri-St Louis. "At the end of the day, getting value from the outsourcer is up to you," concludes Metromedia Restaurant's Ms Robinson.

Establishing a single point of contact (whether an individual or group) for all interaction with the outsourcer can prevent unauthorized employees from making special requests beyond the contract's scope, and thus generating additional fees. The contact person can also guide the outsourcer through company politics to help smooth service issues. Keeping a senior controller or accounting manager on staff to help oversee the relationship works to strengthen controls—and lighten the CFO's load. In retrospect, NDCI's Mr Erickson wishes that the dry cleaning group had not outsourced the controller. "I'm wearing too many hats now," he says.

Build a partnership.

Contractual stipulations are important, but as critical to the success of outsourcing is the personal rapport between the client's lead manager and his or her counterpart at the provider. If chemistry is lacking here, the arrangement is more likely to stumble. Across the business, treating the provider as a partner instead of an adversary leads to better results. "You have got to be very open about your business objectives and goals and make people feel as though they're all working together," says Simon Carr, commercial director at BAE, the British aerospace company. Our survey respondents overwhelmingly agreed, with 71% ranking mutual trust between the client and provider as the key factor determining the success of any outsourcing relationship.

Conclusion: Focus on finance

Overarching these specific best practices is the importance of viewing outsourcing as a tool for pursuing a business strategy, rather than as a strategy in and of itself. As companies continue to face heightened competition in a difficult global economy, cost cutting will remain at the top of the corporate agenda. But reducing costs is only effective if it is also the flip side of a potent business proposition that generates healthy revenues by meeting customer needs. As is clear from both survey results and in-depth interviews with senior finance executives, outsourcing is a powerful ally in the corporate struggle to cut costs.

But it is also something more. It is a vital complement to strategy, providing a means to execute processes that are important—but not differentiating—to your business. "If these aren't things that your customers are willing to pay you to do extraordinarily well, then look for partners to do them, and allow yourself to focus on what is really going to make the difference in your business," says Metromedia Restaurant's Ms Robinson. "The things that we outsourced are important, certainly," she concludes, "but they're not what we use to compete for customers." Therein lies the real contribution of outsourcing—not just a boost to the bottom line, but also the freedom to focus on what you do best.

Accenture and the Economist Intelligence Unit conducted a wide-ranging survey of global corporate leaders in January–February 2003. In all, 236 senior executives took part, representing all major geographic regions and a wide range of industries. One-third of the respondents were CEOs, chairmen, CFOs or senior finance executives.

Survey results

Do you expect finance outsourcing to become more prevalent in your industry over the next three years?

Yes	71%
No	29%

If so, what are the primary drivers behind increasing use of finance outsourcing providers, in your view? Please choose as many drivers as apply.

Increased cost pressure from economic and market conditions	64%
Lower prices as more and more companies reap economies of scale by using a shared outsourcing service	60%
Improved technology and expertise at outsourcing providers	47%
Improved quality of service from outsourcing providers	43%
Increasing tax and regulatory compliance burdens on in-house departments	32%
Pressure to increase transparency of accounts in wake of governance and disclosure scandals	29%
Easier access to financing within companies for outsourcing deals	18%
Other	9%

In your view, what are the primary benefits of finance outsourcing? Choose the top three benefits.

Lowering costs and maximizing efficiencies	66%
Enabling sharper focus on core competencies	55%
Increasing business productivity of CFO and other finance staff	32%
Accessing best-of-breed talent and technology	32%
Improving quality of service	26%
Delivering greater transparency and openness in the eyes of the market	25%
Improving quality of finance-related data and analysis	24%
Handing off development and compliance risks	15%
Enhancing disaster recovery and continuity planning	13%
Catalyzing wider organizational change	12%
Other	3%

Do you agree that outsourcing finance and accounting functions can improve the quality of a company's disclosure?

Yes	73%
No	27%

In your view, what are the primary drawbacks associated with finance outsourcing? Choose the top three drawbacks.

Risk of valuable data falling into competitors' hands	52%
Risk that cost of outsourcing exceeds expectations	48%
Level of in-house knowledge and expertise erodes	45%
Risk that quality of service deteriorates over time	42%
Difficulty of switching provider if need be	35%
Difficulty of monitoring ongoing relationship with provider effectively	27%
Governance and compliance issues more difficult to address with organizations outside direct control	24%
Risk that outsourcing provider goes bankrupt or changes ownership	23%
Difficulty of measuring gains in performance effectively	19%
Level of innovation on the part of the provider is lower than expected	9%
Other	4%

What are the critical success factors in finance outsourcing, in your view? Choose the top three factors.

Mutual trust between outsourcer and outsourcing provider	71%
Concise service level definitions and agreements	53%
Hands-on support for the outsourcing project from the CFO and other senior management	52%
Integrated technology platforms	47%
Good pre-existing in-house processes and systems	37%
Verifiable track record of outsourcer competency	33%
Other	3%

Which of the following typical attributes of a finance outsourcing arrangement would be – or have been – most successful for your own organization? Please choose as many as apply.

Outsources routine, transaction-intense tasks	68%
Use of performance-based pricing	43%
Transfers own people and assets to provider	37%
Uses a solution customized to its needs	33%
Uses single outsourcing provider for all functions	31%
Use of fee-for-service pricing	26%
Uses provider's own assets and people	25%
Uses multiple outsourcing providers for different functions	23%
Uses a standardized solution from the provider	17%
Outsources areas of more strategic value	17%
Shares a standardized solution with other customers of the service provider	14%
Uses multiple providers for overlapping functions	7%
Other	2%

In your own organization, what are the primary barriers that stand – or have stood – in the way of a decision to outsource finance and accounting functions? Choose the top three.

Cultural resistance to change	50%
Difficulty of managing risk of an unsatisfactory outcome	44%
Vested interests within the company trying to protect jobs, budgets and power	40%
Difficulty of quantifying risk of an unsatisfactory outcome	34%
Set-up costs of outsourcing arrangements	29%
Highly specialized processes and products within the company that militate against outsourcing	28%
Time constraints on researching, negotiating and structuring satisfactory deals with providers	24%
Emphasis on better governance (leading to desire for greater direct control of finance functions)	22%
Political sensitivities surrounding outsourcing (especially for public-sector bodies)	15%
Legislative and regulatory obstacles to outsourcing	10%
Other	3%

If you were making a choice between different finance outsourcing providers, which of the following factors would be most important to you? Please choose the top three factors.

Functional expertise	62%
Cost	61%
Reputation	55%
Industry expertise	46%
Flexibility on rollout of the service (ie, ability to run small pilot projects first)	33%
Performance-based pricing	29%
Location	9%
Other	2%

Within your own organization, who has responsibility for making the initial decision to evaluate outsourcing of finance functions?

CFO	45%
CEO	29%
The Board of Directors	15%
Regional or business unit finance directors	7%
Director of strategic alliances/executive responsible for outsourcing relationships across the enterprise	2%
Other	2%

Within your own organization, who would have or has responsibility for running the relationship with the provider of finance outsourcing services?

CFO	69%
Regional or business unit finance directors	15%
Director of strategic alliances/executive responsible for outsourcing relationships across the enterprise	7%
CEO	4%
The Board of Directors	3%
Other	2%

Please rank each of the following finance functions between 1 and 5 in terms of their importance to the success of your business, 1 being most critical and 5 being least critical.

	1	2	3	4	5
Accounts receivables and collections	46%	24%	11%	11%	8%
Treasury and cash management	41%	32%	16%	6%	4%
Financial risk management	31%	30%	21%	12%	6%
Budgeting and forecasting	23%	41%	21%	10%	5%
Financial reporting	22%	38%	22%	11%	7%
Management report preparation and analysis	22%	41%	23%	10%	4%
Tax compliance and planning	17%	35%	28%	16%	4%
Employee payroll	15%	25%	26%	24%	11%
Accounts payables and vendor management	13%	30%	32%	20%	5%
General and financial accounting	8%	37%	39%	14%	3%
Financial systems application support	5%	32%	39%	22%	2%
Travel and expense processing	4%	18%	31%	30%	17%

Now rank each of the functions between 1 and 5 in terms of the amount of time they currently take up from senior members of the finance team, 1 being the functions that absorb most senior finance management time and 5 being the functions that absorb least time.

	1	2	3	4	5
Budgeting and forecasting	29%	37%	19%	11%	4%
Management report preparation and analysis	26%	38%	22%	11%	3%
Financial risk management	23%	34%	22%	14%	6%
Treasury and cash management	21%	32%	33%	11%	3%
Accounts receivables and collections	18%	22%	30%	22%	8%
Financial reporting	18%	36%	28%	15%	4%
Tax compliance and planning	10%	34%	29%	21%	6%
Accounts payables and vendor management	7%	21%	31%	31%	10%
General and financial accounting	6%	29%	40%	20%	5%
Financial systems application support	4%	19%	34%	30%	13%
Employee payroll	3%	14%	27%	36%	21%
Travel and expense processing	3%	15%	16%	37%	29%

Does your organization currently undertake any finance outsourcing? Please choose the statement that most applies to your business.

No—although our organization outsources other business functions	52%
Yes—our organization currently outsources finance and accounting functions	30%
No—our organization does not outsource any business functions	18%

Which of the following specific finance and accounting functions does your organization already outsource or intend to outsource? Choose 1 if the function is already outsourced and has been successful, 2 if the function is already outsourced and has been unsuccessful, 3 if you are intending to outsource the function, and 4 if you have no intention to outsource the function.

	Already outsourced successfully	Already outsourced unsuccessfully	Intending to outsource	No intention to outsource
Employee payroll	27%	6%	26%	40%
Tax compliance and planning	21%	6%	27%	46%
Financial systems application support	16%	7%	27%	49%
General and financial accounting	13%	6%	24%	57%
Travel and expense processing	12%	3%	31%	54%
Accounts receivables and collections	12%	5%	20%	64%
Accounts payables and vendor management	9%	3%	21%	67%
Financial reporting	7%	5%	19%	69%
Other finance functions	7%	4%	32%	58%
Management report preparation and analysis	6%	5%	17%	72%
Treasury and cash management	4%	4%	11%	81%
Financial risk management	3%	3%	18%	76%
Budgeting and forecasting	1%	3%	11%	85%

If you do outsource any finance functions, how successful has the overall experience been in your view?

Outsourcing has been successful	57%
Outsourcing has brought no significant improvements on in-house arrangements	28%
Outsourcing has been extremely successful	8%
Outsourcing has been unsuccessful	5%
Outsourcing has been extremely unsuccessful	2%

If you do not currently outsource any finance functions, which of the following outcomes would be sufficient to make you switch to an outsourcing arrangement? Please choose as many answers as apply.

Cost savings of more than 10%	15%
Cost savings of more than 20%	37%
Cost savings of more than 30%	27%
Cost savings of more than 40%	13%
Cost savings of more than 50%	12%
Output (bills processed, invoices raised, etc) rises by more than 10%	13%
Output rises by more than 20%	27%
Output rises by more than 30%	21%
Output rises by more than 40%	6%
Output rises by more than 50%	8%
Other	7%

If you do not outsource finance and accounting functions but you do outsource in other areas of your business, please explain why the finance functions have not shifted to this model. Choose all the answers that apply.

The finance functions are considered too critical to be outsourced	58%
There are greater savings and productivity gains to be had in other parts of the business	38%
There has not been a conscious decision to leave finance functions out of the shift to outsourcing	30%
Our finance processes are more specialized than other processes and more difficult to take out of house	26%
The quality of outsourcing providers is higher in other functional areas	18%
Other	9%

If you do outsource finance functions, do you have metrics in place to measure the success of the arrangement?

Yes	18%
No	82%

Respondent demographics

Where are you located?

Western Europe	24%
North America	29%
Asia Pacific	25%
Middle East/North Africa	5%
Eastern Europe	7%
Latin America	7%
Sub-Saharan Africa	3%

Which of the following titles best describes your job?

Chief executive officer	9%
Chairman	3%
Chief finance officer	12%
Senior finance executive	9%
Executive vice-president/vice-president	9%
Line executive (eg VP of marketing, manufacturing, operations, sales)	13%
Department manager	21%
Regional manager	3%
Other	21%

What industry are you in?

Aerospace and defense	1%
Agriculture	2%
Automotive	3%
Chemicals and textiles	3%
Construction and real estate	5%
Electronic and electrical equipment, household goods and products	2%
Engineering and machinery	4%
Financial services	22%
Food, beverages and tobacco	2%
Government and public services	3%
Healthcare, pharmaceuticals and biotechnology	4%
Leisure, entertainment, media and publishing	2%
Mining, oil and gas	2%
Professional services	10%
Retailing	2%
Telecommunications	16%
Travel, tourism and transport	4%
Utilities	2%
Other	11%

What were your company's revenues in US dollars in 2001?

Less than $500 million	53%
$500 million to $1 billion	12%
$1 billion to $3 billion	6%
$3 billion to $8 billion	7%
More than $8 billion	14%
Not applicable	8%

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SunTrust Banks
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TRW Automotive
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For further information on this study please visit us at www.accenture.com/financesolutions or contact finance.solutions@accenture.com

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- Innovates and transforms the processes in those areas.
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