

## Chapter 6.11

# Outsourcing and Offshoring Finance Activities

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### ABSTRACT

This chapter reviews the outsourcing and offshoring of finance activities and the socioeconomic implications for home and host countries. Part one provides an overview of the hierarchy of finance activities in the firm and the phenomenon of outsourcing and offshoring of these activities. The phenomenon is then examined from a firm perspective, highlighting the major drivers, trends and issues using theoretical frameworks and case examples from the author's in-depth interviews with 37 managers at 25 multinational firms. Finally, the socioeconomic issues and implications of offshoring activities are discussed in the context of both home and host countries.

### INTRODUCTION

Globalisation, technology, regulation changes, stakeholder pressures, and firm re-organisations

present challenges and opportunities to firm finance functions to improve their contributions to the business. One of these opportunities is the outsourcing and offshoring of finance services. Finance services comprise 10% of the nearly \$250 billion worldwide business process outsourcing (BPO) market (Gartner, 2003) and the total number of finance service outsourcing is expected to increase 71% over the next few years (Accenture & EIU, 2004). Firms also offshore these finance activities. A survey of 275 finance executives revealed that 21% send finance and accounting activities offshore (CFO Magazine, 2003). Finance services offshoring is more commonplace among firms based in the U.S. and Europe than those in Asia Pacific. The offshoring of finance activities has important socioeconomic implications for both the home and host countries.

The chapter begins with an introduction to finance activities in the firm. The phenomenon of outsourcing and offshoring of these finance activities is reviewed, paying special attention

to the drivers, costs and benefits of outsourcing and offshoring from the firm's perspective. We then review a framework for evaluating location choice based on the author's semi-structured, in-depth interviews with 37 managers at 25 U.S. and European headquartered multinational firms. This research was undertaken jointly by the author, Anne Evison, Julian Birkinshaw and Roy Barden in 2003 and 2004. The managers were identified through the researchers' personal contacts. Respondents' job titles were CEO (2), Finance Director (6), Head of Shared Services (12), Outsource Service Provider (2), Change Director (4) and Other (6). Five customers of shared service operations were also interviewed. The chapter then examines finance services offshoring from the perspective of both the home and host country, exploring the socioeconomic issues. Special attention is paid to two countries with deep involvement in sending and receiving activities abroad: the U.S. and India. The discussion of socioeconomic issues facing home and host countries is based on the expert interviews detailed above, as well as a review of recent government reports, academic research and case studies.

## **FINANCE ACTIVITIES IN THE FIRM**

Finance activities can be seen in terms of a hierarchy of value-added inside the firm. At the top of the hierarchy are strategic finance decisions such as corporate risk management, budgeting and forecasting. The next level includes business partnering activities, group finance, tax and treasury. Next in the hierarchy are business analysis activities such as managerial accounting and budgeting. Finally, transaction activities include credit, control, payroll, general ledger, accounts payable, and accounts receivable. Figure 1 illustrates the hierarchy of finance activities in the firm.

Strategy, business partnerships, tax and treasury activities at the top of the hierarchy are generally located in in-house at the firm's corporate headquarters. However, new business models of shared services, outsourcing and offshoring are dramatically changing the organisation of finance activities in the rest of the firm. The first step in re-organisation is often the simplification, standardisation and centralisation of transactional and, to a lesser extent, analytical finance activities. Often, a shared service centre (SSC) is established and supporting IT systems are integrated on a single, unified platform. For example, in 1998, London-based supply chain management firm Exel replaced its 13 freight management accounting and administration centres around Europe with one SSC in Dublin. Exel then contracted outsourcer Accenture to provide the service and enable the delivery of future benefits (Accenture & EIU, 2004). This evolution of finance transaction processing from simplification to outsourcing is depicted in Figure 2.

## **Outsourcing of Finance Activities**

The first finance service activities to be outsourced are generally transactional activities such as payroll, followed by increasingly value-added capabilities. Figure 3 illustrates the evolution of the outsourcing of finance activities.

This evolution is reflected in current estimates of finance service outsourcing expenditure: employee payroll (27%), tax compliance and planning (21%), financial systems application support (16%), general and financial accounting (13%), travel and expense processing (12%), accounts receivables and collections (12%), accounts payable and vendor management (9%), financial reporting (7%), management report preparation and analysis (6%), treasury and cash management (4%), financial risk management (3%), budgeting and forecasting (1%) (Accenture & EIU, 2004).

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