

Outsourcing

Progressive Finance: Improving Finance and Accounting Business Process Outsourcing



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Executive summary

Now more than ever, companies acknowledge that high performance demands collaboration. They understand that the ability to be global but act local demands inter-company cooperation. No business activity addresses the above realities more than outsourcing. Outsourcing is, after all, a way to leverage the combined talents of multiple organizations—enabling each party to focus on its core competencies. In many respects, outsourcing is key to creating the 21st Century capabilities and efficiencies that ensure profitability and competitiveness.

One particularly viable area within business process outsourcing is finance and accounting—transferring to a service provider activities such as transaction processing, general accounting and treasury. Every year, more companies outsource these activities. The reason, not surprisingly, is the pursuit of high performance: Accenture research has shown a 74 percent correlation between “finance mastery” and a high performance business¹. And it is through outsourcing that many reach this pinnacle by enabling the retained finance function to focus on more-strategic priorities instead of day-to-day processing, and through stronger governance, clearly defined management controls, increased efficiency and a culture of continuous improvement.

The results of our survey indicate that executive respondents understand that business success can be achieved through inter-company cooperation and that outsourcing can be an

important way to access, integrate and optimize the expertise of multiple players. Accordingly, they also recognize that outsourcing is a momentous, transformational experience, and that developing a clear, collaborative strategy for transforming the business through outsourcing is essential. This is consistent with other studies showing that companies increasingly desire an outsourcing partnership—with shared responsibility for implementation, setbacks and success. Implicit in this aspiration are high levels of accountability, information visibility and a commitment on the part of the outsourcing services provider to continuously improve service performance.

Despite their increasingly strategic outlook, survey respondents continue to place a premium on increasing cost efficiency—and that they look to outsourcing to help them attain it. Stated or implied, cost-efficiency tended to be their top finance and accounting priority, regardless of

whether finance and accounting activities are in house or outsourced.

Yet, as an outsourcing priority, “achieving continuous improvement” has become nearly as important as cost efficiency. In fact, 89 percent of respondents stated that a commitment to deliver continuous improvement in finance and accounting processes is important. Further, throughout the survey, they consistently noted the strategic value of outsourcing service providers regularly implementing industry best practices, upgrading technology and enhancing performance reporting and information transparency.

Another clear imperative is accessing the benefits of new technology. Respondents strongly believe that outsourcing may be the best way to obtain the benefits of leading-edge technology. This was evidenced in several ways. For example, only a third of the survey population currently use what they consider to be the best available tools to manage

accounting and finance. But nearly twice that number expects that leading-edge technology would accompany an outsourcing program.

Higher levels of automation also were cited by respondents as the best way to increase efficiency; and technology issues dominated respondents’ list of “obstacles to performance improvement.”

Lastly, it should be noted that survey respondents see high performance—dynamic, measurable, sustainable—as increasingly relevant to finance and accounting. On several occasions, executives made it clear that stronger metrics, continuous improvement and alignment with business strategy (all of which are leading tenets of high performance) are what they want most from an outsourcing relationship. On the following page we examine recent research focused on the relationship between “Finance and Performance Management Mastery and the High-performance Business.”

Finance and Performance Management Mastery and the High-performance Business

Accenture's ongoing research shows that high-performance businesses possess several key traits. One of these is the ability to achieve business function mastery through continuous innovation in strategic core competencies. At Accenture, we have always believed that a direct correlation exists between the sophistication of an organization's finance and performance management capabilities and its overall performance.

In order to identify distinctive characteristics of finance organizations at high-performance businesses, Accenture conducted two complementary research studies: a series of CFO interviews and a benchmarking study in collaboration with the Hackett Group.

The research found that the correlation between finance mastery and high performance is greater than 70 percent. These companies—which we refer to as "masters of finance"—use the function in a distinctive manner to drive differentiation and superior results.

The research demonstrated that high-performance businesses recognize the value of five key sets of capabilities, however, they do not emphasize them equally, apply them similarly or develop them in the same way. Rather, they establish tailored programs that drive competitive advantage in ways that make the most sense for them.

Value-centered culture
In its interactions with the business, the finance organization fosters a culture of shared beliefs and assumptions about the nature of value and how value is created in the organization's industry.

Enterprise performance management
In its broadest form, enterprise performance management is the ability to guide near- and long-term performance through insightful and adaptive management processes, including close integration from strategy to execution.

Finance operations
Is the operation of highly effective and efficient finance and accounting services. Excellence in finance requires the use of technologies, organizational structures and process best practices that enable low-cost operations and foster a cost-leadership mentality.

Capital stewardship
Debt and equity markets are harnessed effectively to access capital, manage liquidity exposure, and optimize capital costs. Funds are invested wisely to create near- and long-term value for shareholders.

Enterprise risk management
Financial and insurable risks, as well as non-financial risks, are proactively identified and managed across the enterprise.

The research findings provide support for what we already suspected—that finance and performance management capabilities are critical enablers of organizational success. They also reveal several important lessons that any company can apply to make their finance functions more strategic and, ultimately, more valuable. Most important, they point to the urgency for a new way of looking at finance as a value generator.

Finance masters demonstrate that value is no longer measured solely by efficiencies and cost containment. In the world of high performance, what matters most is creating new forms of value by building the right capabilities and adapting them over time to match changes in business environment.

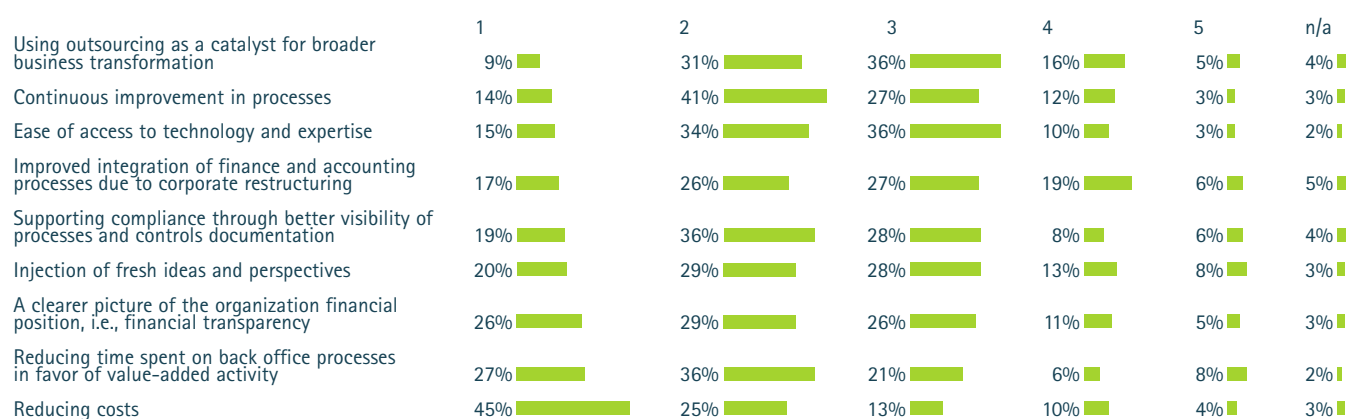
89 percent of respondents stated that a commitment to deliver continuous improvement is important.

Accenture commissioned The Economist Intelligence Unit (EIU) to survey 135 executives. Globally, virtually all of the survey's respondents occupy decision-maker positions—CEO, COO, CFO, CIO and so forth—and thus can be considered highly qualified to provide insights about their organization's priorities and the expectations they have about how outsourcing finance and accounting functions can contribute to high performance.

The EIU secured input from companies with varying revenues. This helped to ensure that clear distinctions could be made about the practices and priorities of smaller (annual revenue of less than \$1 billion), medium (revenue between \$1 billion and \$3 billion) and larger companies (revenue exceeding \$3 billion).

Figure 1: What do you see as the main benefits of outsourcing your finance and accounting function?

1= most important; 5= least important



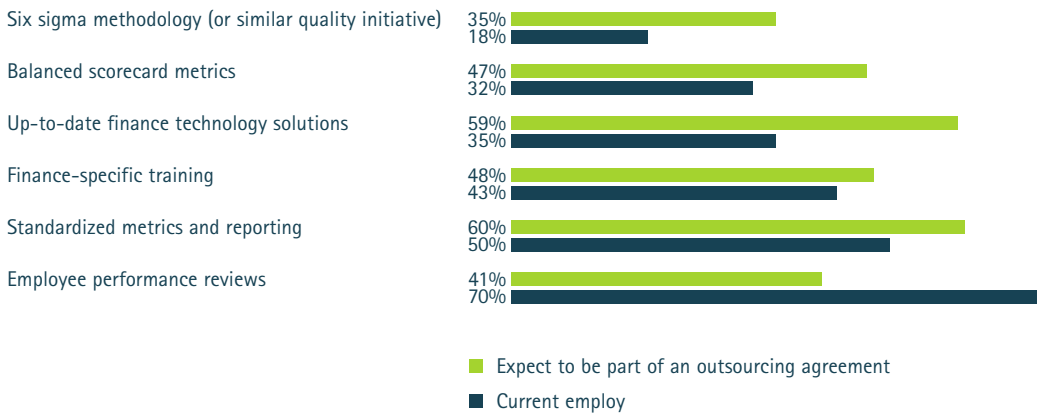
Perspectives on performance in finance and accounting

Because the mission of this survey was to identify recipients' outsourcing goals, priorities and expectations, questions about current outsourcing practices were not covered. The focus, in other words, was on respondents' concerns and aspirations—how innovative use of finance and accounting outsourcing might help them attain and maintain high performance in the future. The validity of this mission was confirmed by executives' responses to the survey's first question: "Is a commitment to deliver continuous improvement in finance and accounting processes an important component of an outsourcing contract?" The fact that 89 percent said "yes" speaks volumes. It tells us that finance and accounting outsourcing has become more than an efficiency-enhancement (cost-

saving) tool—that it also should be considered an ongoing means of improving the totality of a organization's finance function: continuous improvement!

This is not to say that less esoteric goals—i.e., cost reduction—are unimportant or that companies do not see finance and accounting outsourcing as a powerful opportunity to reduce costs. As shown in Figure 1, survey respondents were most likely to cite "cost reduction" as the premier benefit associated with finance and accounting outsourcing. However, a closer look reveals that an enlightened view of finance and accounting outsourcing also is present: Combining respondents' first and second choices, we see that "reducing time spent on back office processes in favor of value-added activity" garnered nearly as much support as "cost reduction." In fact, quite a number of 1-2 combinations gathered almost as much support as

Figure 2: Which of the following performance initiatives does your organization employ and which would you expect to be part of a finance and accounting business process outsourcing contract?



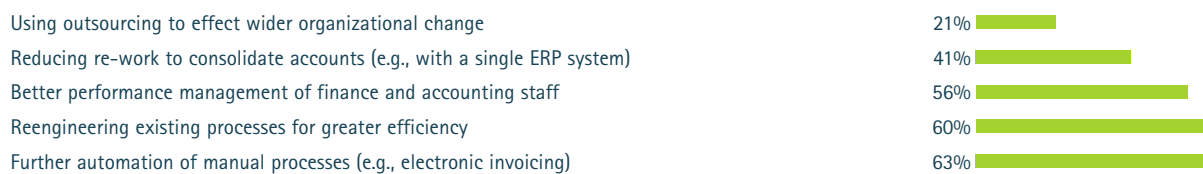
"reducing costs." Accenture and the EIU also observed that large-company respondents (revenue exceeding \$3 billion) were less likely than the survey population as a whole to cite "reducing costs" as the premier benefit. This is significant because big companies are more frequent procurers of outsourcing services, and often have studied the subject more closely.

Survey recipients also were asked to identify the performance initiatives that they currently employ in their finance and accounting functions—in other words, how they presently are working to achieve the benefits put forth in Figure 1. Not surprisingly, basic performance measures—"employee performance reviews," "standardized metrics" and "finance-specific training"—were cited most frequently (Figure 2).

In the next question, however, the survey population was given the same choices and asked to identify

the performance initiatives they expect would be part of a finance and accounting outsourcing solution. And this time, "up-to-date finance technology" was among the leading responses. Observe that in Figure 2 only 35 percent say they employ up-to-date finance technology solutions currently, but nearly twice as many would expect such capabilities to be part of an outsourcing program. This is significant because 1) barely a third of the survey population now applies the best available tools to manage its accounting and finance function and 2) a majority know that outsourcing is the best way to cost-effectively access those tools. The same can be said for Six Sigma: The quantity of respondents hoping to benefit from this advanced quality-management approach is 50 percent higher than the number who employ it currently. The bottom line is that executives recognize that outsourcing is a way to acquire leading-edge capabilities that might otherwise be unattainable.

Figure 3: Irrespective of whether or not your organization's finance and accounting function is outsourced, which of the following initiatives would help your organization reduce finance and accounting costs over the next three years?



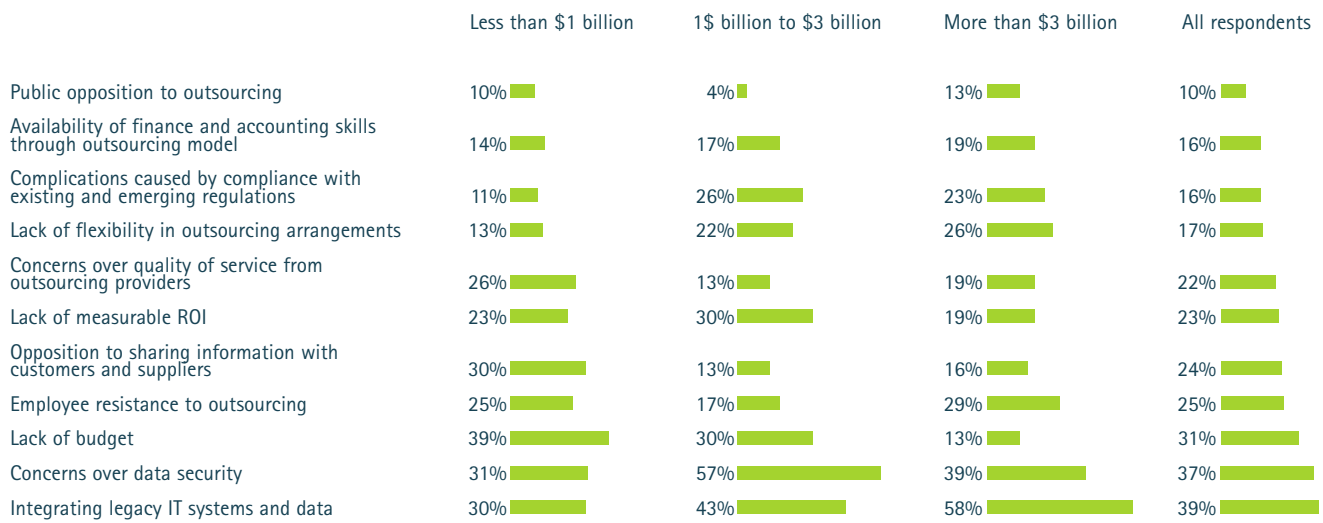
Looking forward

Respondents to this survey understand that outsourcing their finance and accounting functions can unlock a variety of important benefits, including continuous process improvement, opportunities for increased value-added activity, and higher levels of transparency and control. However, as noted previously in Figure 1, reducing costs is still key—regardless of whether an organization's finance and accounting function is outsourced or maintained in-house. Accordingly, Accenture and the EIU asked readers to identify those initiatives that would most help their companies reduce finance and accounting costs over the next three years—whether or not those functions are outsourced. As shown in Figure 3, survey respondents generally agree that increasing automation, reengineering existing processes, and improving performance management are key to greater efficiency. The question thus becomes “can these

objectives be more readily obtained in-house, or is an outsourcing solution the most viable course?” Through Figure 2, we have observed that up-to-date finance technology solutions are present in just over one-third of respondents' organizations, but that nearly 60 percent expect that leading-edge technology solutions would be part of an outsourcing program. In a roundabout way, respondents are acknowledging that outsourcing could help them reach their principal objective: reduce finance and accounting costs.

Survey respondents also made it clear that obstacles to improving their finance and accounting performance are abundant and daunting. As shown in Figure 4, technology concerns again lead the pack: “Integrating legacy IT systems and data” was number one, while “ensuring data security”—clearly a technology issue—ranked second. Even the third-ranked concern—lack of budget—has an

Figure 4: What will be the biggest obstacles to performance improvement in your organization's finance and accounting function over the next three years?



obvious technology bent. It is likely, after all, that budget limitations are why only one third of respondents' companies have finance/accounting systems that are up to date (per Figure 2). Interestingly, low use of leading-edge technology also was confirmed by the results of another Accenture/EIU survey of senior executives, which revealed that only 15 percent of companies surveyed currently transact 60 percent or more of their accounts payable and accounts receivable functions on a fully automated basis. And like this survey, those respondents acknowledged that "extensive finance-focused benefits are frequently associated with increased levels of automation," and that "one of the most obvious ways to capture the benefits provided by technology is to outsource transaction processing to a provider that specializes in finance outsourcing. Through outsourcing, overcoming the barriers to adopting new tools and technologies becomes the

responsibility of the outsourcing provider, not the organization."²

A curious combination of concerns can be found in "lack of measurable ROI" and "quality of service from outsourcing providers"—both of which were cited as a top-three obstacle by about one quarter of respondents (Figure 4 – All respondents column). What makes these answers peculiar is that outsourcing is often positioned as a solution to concerns about ROI. Hyper-specific performance measures, level costs and guaranteed service levels usually are core components of an outsourcing contract. And of course, they are key to calculating and managing ROI.

This dichotomy prompted Accenture and EIU researchers to look more closely at where these responses came from. What they found was a marked disparity between larger and smaller companies: Compared to

Figure 5: How could an outsourcing provider help you improve the performance of your finance and accounting function over the next three years?



smaller companies, larger organizations were about 50 percent less likely to voice concerns about outsourcing services provider quality (Figure 4). They also were one third as likely to cite "lack of budget" as a major impediment to improving finance/accounting performance. Conversely, larger companies were twice as likely as smaller companies to voice concerns about "integrating legacy IT systems and data"—perhaps because more large companies have engaged in mergers and acquisitions that require the integration of multiple back-office systems.

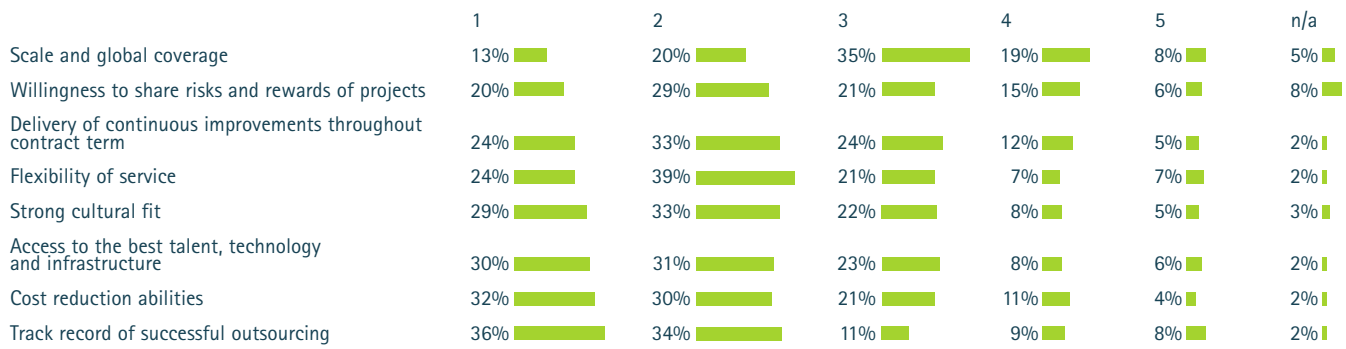
Choosing an Outsourcing Services Provider

Thus far, we have shared the opinions, concerns and aspirations that respondents hold for their finance and accounting operations—both internal and (potentially) in an outsourcing environment. The final step is to communicate their insights on selecting an outsourcing services provider. We asked executives "How could an outsourcing services provider help you improve the performance of your finance and accounting function over the next three years?" As shown in Figure 5, "improving service quality" was the most prevalent response. Our view is that when an organization outsources a process, the process evolves from an internal back-office function to a highly valued customer for a services provider.

¹ "Finance and Performance Management Mastery and the High-performance Business" Accenture, 2004

² "Future Finance: How technology can help create a high performance finance function" Accenture, 2005

Figure 6: Which of the following are most important when selecting an outsourcing provider for your finance and accounting function? 1= most important; 5= least important



This significant change—along with increased process rigor, detailed service level agreements and consistent reporting—usually result in much better service quality.

Equally significant, however, is the variety of topics to which respondents gave weight. Few were united in their views about how outsourcers might help them enhance performance.

It also should be noted that "improving service quality" (via outsourcing) appears to be far more important to large companies than to smaller ones (61 percent versus 36 percent, respectively). In fact, this query produced numerous disparities between larger and smaller organizations. Responses segmented by industry also were not consistent. "Improving service quality" tended to be the most-frequently-cited performance-improvement area, but representatives in three industries demurred:

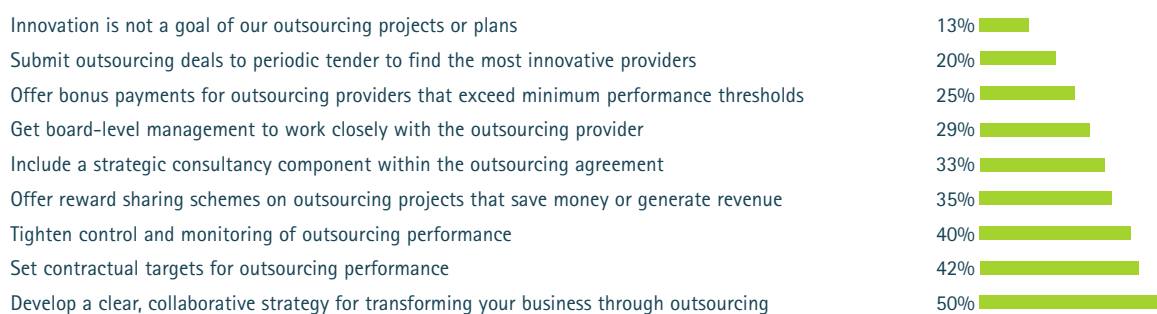
Healthcare: Most respondents from this industry (60 percent) identified "adopting best practices from your own and other industries" as the most important way that an outsourcing provider could help them improve performance.

Technology: Most respondents from this industry (47 percent) identified "providing more accurate and timely financial reporting" as the top performance-improvement provision.

Manufacturing: Most respondents from this industry (63 percent) identified "adopting best practices from your own and other industries" as key (compared to only 25 percent for "improving service quality").

Accenture and the EIU also asked survey recipients "Which of the following are most important when selecting an outsourcing provider for your finance and accounting function?" (Figure 6). It is noteworthy that respondents gave

Figure 7: Which of the following strategies will be most effective in helping you to develop innovative outsourcing solutions over the next three years?



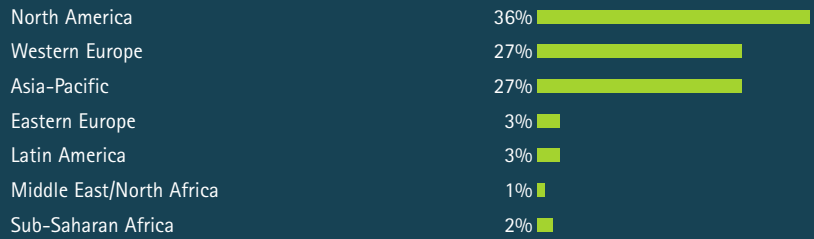
slightly more weight to a "solid track record" than to a services provider's "cost-reduction capabilities."

To conclude the survey, researchers turned to the subject of innovation—asking executives, "Which of the following strategies will be most effective in helping you develop innovative outsourcing solutions over the next three years?" As shown in Figure 7, the largest body of respondents said "developing a clear, collaborative strategy for transforming the business through outsourcing." This is consistent with other studies showing that companies increasingly desire an outsourcing relationship, with shared responsibility for implementation, setbacks and success.

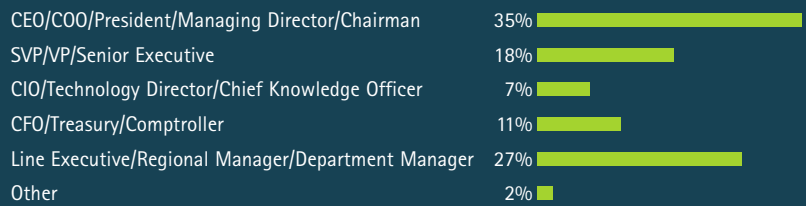
By a narrow margin, however, "setting contractual targets for outsourcing performance" was the preferred choice among respondents from larger and mid-size companies. Compared to smaller companies and

the survey aggregate, larger and mid-size companies also assigned greater importance to "tightening control and monitoring of outsourcing performance." The implication, we believe, is that organizations acknowledge the transformational effect that finance and accounting outsourcing can have on a business and (consequently) the overriding importance of a comprehensive, collaborative strategy. The runner-up priorities may be just as critical, but they could be seen as subsets of the "clear, collaborative strategy." So, the main message may be that the key components of a comprehensive, collaborative outsourcing strategy are "setting contractual targets," "developing control and monitoring methodologies" and "collaboratively creating reward-sharing schemes."

Where are you located?

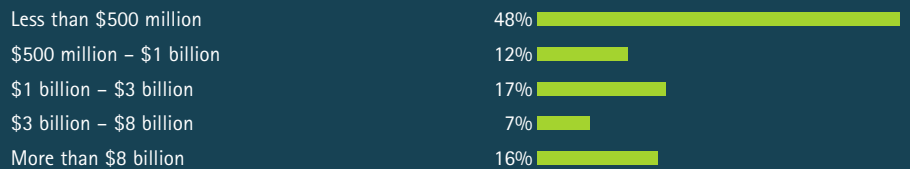


Which of the following best describes your job?

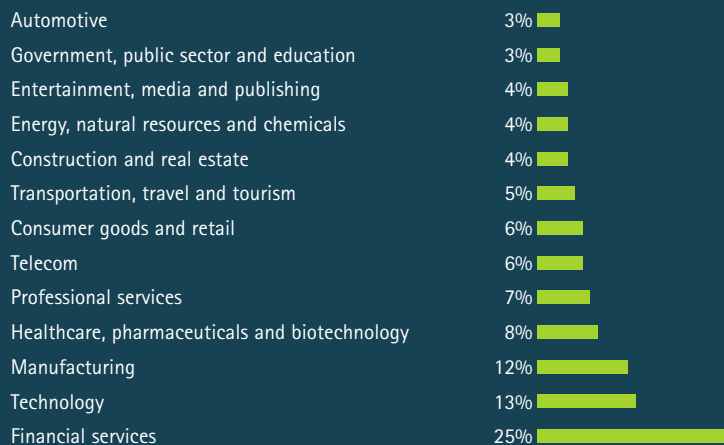


Demographics

What were your organization's revenues in US dollars in the most recent fiscal year?



What is your industry?



To find out how Accenture can transform your finance organization, visit us at www.accenture.com/financeBPO.

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About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 152,000 people in 49 countries, the company generated net revenues of US\$16.65 billion for the fiscal year ended Aug. 31, 2006. Its home page is www.accenture.com.

This report was written in cooperation with the Economist Intelligence Unit.

We would like to extend special thanks to the 135 senior executives from around the world who participated in the online survey.

