



Finance and Accounting (F&A): Is outsourcing the answer for you?

A Morgan Chambers Article

The F&A outsourcing market has grown considerably over the past 12 months. At the same time Europe is witnessing an upsurge in in-sourced solutions such as shared services.

So how can you determine which is the most appropriate delivery mechanism for your business? Take Morgan Chambers' Five Step Test to provide you with an insight into the options that may work for you.

This test uses industry norms to identify the most common approach used by organisations in your position. However, every company is unique and therefore this should be used as a guide only.

How many staff are there in your finance function in total?



Less than 50

Outsourcing for cost saving reasons usually requires a scope greater than 50 – somewhere around 150 or more. With a department of less than 50 other options for re-engineering your finance function such as in-sourcing/shared services or partial outsourcing may be more suitable.

50 to 150

The size of your department is unlikely to be attractive to the largest players in the F&A market; however, there are many smaller and highly capable organisations that would be interested. If you do outsource the economics are less likely to lend themselves to short term financial savings, but the improvements in quality, efficiency and other benefits of being in a larger talent pool may prove attractive.

More than 150

Irrespective of the transition or transformation requirement you have for your finance function the scale you represent means that there should be major financial benefits in outsourcing. Off balance sheet advantages like commercial and operational flexibility and quality are additional benefits.

How would you describe your company's culture?



Paternalistic and very risk averse

Large scale outsourcing where sensitive or strategically important functions are transferred will be difficult for your organisation to cope with. Lower level transactional administration may well be an option but other solutions such as shared services and in-sourcing may also provide benefits through efficiency and scale economics.

Risk averse but needing to drive down costs

Outsourcing can be used as a good tool to achieve savings but in a risk averse organisation it is important for key stakeholders to understand how the risks can be managed. This is common to all organisations, but the more risk averse organisation will require greater communication internally and potentially a longer transition period to ensure everyone is comfortable with any proposed change.

Results focused, progressive and open to new ways of working

Outsourcing, in that it is perceived to be modern and innovative, will clearly be a consideration for your type of culture. Outsourcing may generate savings, but it is at least as likely to generate quality and control information improvements which will benefit the entire organisation.

Has your company outsourced other white collar functions, e.g. IT?



Yes, but unsuccessfully

Clearly there will be a perception issue with the subject of outsourcing. Key to the success of any outsourcing is governance and the retained organisation and its ability to maintain control. By setting up a clear governance framework and by demonstrating how past mistakes are not going to be repeated you will overcome the resistance of the organisation to any new solution you might propose.

No

This is not necessarily an issue in itself but more an indication of the level of communication and education that will be required to ensure success through taking your organisation on the change journey. The learning of other organisations is vital in establishing credibility for the proposed solution, the mistakes and solutions of others is always compelling – so take references and encourage key executives and staff to visit others they can learn from.

Yes, successfully

Whilst this is a great start, it is far from a guarantee of immediate success. Ensure you leverage the knowledge that has been developed inside your organisation and fully evaluate the mistakes and triumphs other organisational units have been through. Outsourcing F&A will be different, so recognise this fact in designing potential solutions; however, F&A is not so different that you can't learn over 90 per cent of the answers from others.

What is the cost of your finance function?



Low

If your relative cost is low then there may not be immediate savings available through simple 'lift and drop' outsourcing. However there may be savings through labour arbitrage in offshore or near-shore sourcing.

Moderate

It is likely that there is a good business case for outsourcing though it may take a period to release direct savings due to costs of transition etc.

High

It is highly likely, even if the cost of the finance function is perceived to be driven by complexity, that you will have a sound business case to outsource to some extent. High cost F&A operations generally have less standardisation and greater process complexity – outsourcing will address both of these issues as well as other cost saving measures to release the potential benefits.

How broad a scope are you prepared to consider for outsourcing?



Narrow scope

Narrow scope functions require a great deal of scale and or complexity to be immediate potential candidates for outsourcing. Many service providers will engage in discussions around a narrow scope only if they can see the potential for a much greater scope in the future.

Intermediate scope

Most outsourcing and shared service solutions depend on scale, work sharing and standardisation/automation to create and maintain a viable business case. Intermediate scope opportunities are therefore more viable if they require similar skills.

Broad scope

Broad scope opportunities clearly give capable and experienced service providers the greatest possibilities to utilise existing skills and resources thereby generating savings. However, scale (i.e. number of staff per function) is obviously an important combination with breadth of scope. Small scale, but diverse functional requirement will always require a greater diversity of skill and therefore both cost more and be more complex and risky to transfer.

Established in 1994 with a single purpose – to provide high quality, practical and totally independent advice on the best client sourcing solutions, Morgan Chambers remains true to these principles today.

We employ business and service delivery experts who passionately believe that balanced sourcing strategies deliver sustainable business advantage and huge flexibility. Whether in-house, Shared Services or utilising external suppliers, we drive innovative, accountable and measurable solutions.

Europe's leading specialist sourcing advisory firm, we employ over 60 full-time consultants from eight offices world-wide. With more than 1000 client engagements in over 60 countries, we have unrivalled experience in achieving successful results.

To discuss how your business can achieve the full potential from sourcing deals, please contact:

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