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Outsourcing accounting need not be scary

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For firms such as Accenture, CGI Group, Cap Gemini Ernst and Young, EDS and IBM Consulting, business process outsourcing (BPO) is a lifeline in an industry storm.
Customers want it because, for starters, it can provide huge cost savings and, for some, access to skills and resources that they lack in-house. For suppliers, outsourcing processes such as employee benefits administration means contracts – solid cash flow projections – that stretch out for three to five years or more.

Margins on BPO are typically better than on technical outsourcing, such as supporting computer hardware and communications networks. The bigger this picture, the better for both buyer and seller. The result: as BPO keeps refreshing itself, it slices ever deeper into parts of businesses formerly viewed as unique and strategic.

One slice of your business to consider for the BPO knife is finance and accounting. It's a scary thought – consider the risks:

- What could be more critical to survival than money management? If service quality fails, you could be in big trouble.
- Do you really want a third party handling numbers that define your company?
- What if this confidential data falls into the wrong hands – such as competitors?
- These capabilities will be costly and painful to rebuild if the deal fails in the future.

The Economist and Accenture identified these and other top management objections in a 2003 global survey. Accenture's most compelling response to these worries is in the context of the wave of high-profile corporate scandals. It quotes Thomas Jones, vice-chairman of the International Accounting Standards Board: "Accounting is probably the most sensitive area right now of any aspect of corporate governance."

The chief operating officer of Barclays Capital, a division of Barclays Bank, says, "How am I going to certify if my accounts got done properly if I outsourced it all?"
The answer: Done properly, outsourcing helps increase financial transparency, accountability and credibility.

- Arm's-length outsourcers should have fewer incentives for creative accounting than your own employees, especially now that third-party providers are themselves under such scrutiny. It serves them – and you – well to use standardized procedures that conform to rules.
- A well-greased multiclient outsourcing machine has a good chance of delivering information faster and better – not to mention more cheaply – than many an in-house operation. Beyond transparency, some are betting the farm that finance and administration outsourcing will deliver benefits right to the bottom line.

GrafTech, based in Wilmington, Del., manufactures graphite and carbon-based products. It benchmarked its human resources, procurement and finance processes against the industry and learned that "we weren't very good," says chief financial officer Corrado DeGasperis.
After initial success with outsourcing IT to Montreal-based CGI Group, the discussion moved to finance and accounting. Graftech faced a problem of globalization and growth. Says Mr. DeGasperis: "We needed new skills, multilingual people, global expertise. We couldn't do it without massive investment."

The problem is, CGI was just ramping up in this area, too. With a legacy in low-tech outsourcing, the company is running fast to become a player in the BPO sweepstakes. Vice-president of business process services, Marcel Doyon, a recent hire from Bombardier where he was vice-president of finance, could bring CGI's IT capabilities to the table, but not many finance consultants. His solution (typical of the outsourcing business) was to "buy" the consultants from the client – Graftech itself – and add CGI's own finance operation to the mix to create more mass and efficiencies. This provided the foundation for a brand new line of business – BPO bootstrapping 101.

Graftech bought the idea as a "partnership" deal whereby CGI absorbed part of the risk. A key component was formation of a global network of service centres, initially in Montreal, Monterrey (Mexico), and Chamberry (France). Analytical work – up to and including decision support for Graftech managers – happens in Montreal. Accounts receivable and payable, as well as data entry, happen in low-cost Monterrey.

Clearly, Graftech bought into an even bigger risk than merely outsourcing its finance function. It did the deal with a new market entrant. No doubt it obtained an accordingly attractive price. Both parties claim that this is one of the most comprehensive finance outsourcing deals in existence: It spans all the way from data entry to decision support, though Graftech retains fiduciary performance, tax and treasury functions.

So how to make such deals work? Accenture and CGI will tell you that a strong management framework, with clear performance measures, is critical. Standardization of processes is hugely important; such standards should comply with today's rigorous governance criteria. People transition management is vital: CGI's success depends on careful integration of "acquired" former Graphtek employees. And all this depends on a foundation of transparency and trust – not only with regard to the interests of external stakeholders of the finance function, but also between outsourcer and outsourcee. This can't be fabricated – it simply takes a lot of time and hard work.

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