Why is financial outsourcing exploding? Why are companies, who in the past were reluctant to let go of the purse strings, are now eager to begin an Application Service Provider relationship? The answer: The competitive pressures of the Internet and cost effectiveness.
If time is money, outsourcing of accounting flows to the bottom line. This article provides an insight into this fast growing phenomenon of modern business world.

Accounting Outsourcers Have Your Number

—Peter Bendor-Samuel

Of course, accounting is crucial for every company. No business can run without having accurate or timely information. But in the same backdrop, some companies are able to make a visible difference in the marketplace because of their accounting proficiency.

And in most of these cases Accounting proficiency is acquired through outsourcing of accounting, which is an important but non-core process. More and more established companies as well as start-ups are turning over their non-core financial processes to suppliers with superior software and manpower who can do the job at a lower cost.

The competitive pressures of the Internet are compressing cycle times from months to hours. They need better accounting services and they need to know their numbers ASAP. But they neither have the time nor the dollars to invest in state-of-the-art accounting software or the finest talent that would enable them to do that since they must continually invest in their core competencies. It is the Internet that is forcing companies to consider outsourcing their accounting.

If time is money, outsourcing accounting flows to the bottom line. An in- house accounting department can sometimes take as long as 90 days to prepare a simple quarterly report. If the firm has all the information on line, it can prepare a report with footnotes in two to three weeks after the quarter is over.

Cost reductions show up on the bottom line

Another major driver is the cost reduction that occurs through outsourcing. Cost reduction remains the number one reason of buyers wanting to outsource, says a new book by Mary Lacity and Leslie Willcocks. Price reductions occur because outsourcers use economies of scale to produce savings. For example, Price water house Coopers is building Centres of Excellence across the globe to serve multiple accounting clients at a lower cost to each while still enjoying profitability. LeapSource is doing the same in Phoenix.

Financial outsourcing also provides process expertise. Because these providers focus on nothing but accounting, they are inherently better at it.

Outsourcing providers also have access to experts in arcane areas of accounting. James Berry of The Berry Group, for example, specializes in helping companies who are summoned to an audit with the

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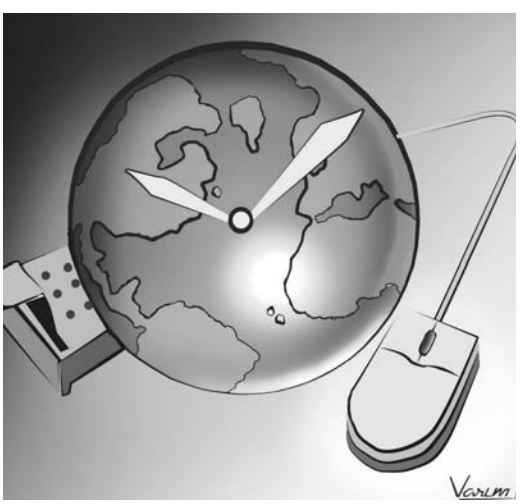
IRS. Few companies need to have an IRS expert on staff. But when an audit arrives, they need to have someone to represent them, someone who understands the 15 allowable exceptions to the rule in question. Outsourcing allows companies to benefit from their knowledge while keeping these specialized, high cost resources on their payroll, not yours.

Outsourcing Accountant from the outset

On the other end of the scale, the outsourcing provider is also able to attract cheaper labour. PricewaterhouseCoopers built its Centres of Excellence in Tulsa, Oklahoma, Bangalore, India and Krakow, Poland. Labour in these locations may be just as professional and well trained as a New York accountant, but their labour rates are far lower.



The supplier can then pass on these savings to its customers.

Many of the new dot-com companies are outsourcing their accounting functions from the outset. They are able to enjoy world class accounting processes virtually overnight. Fine Art Lease, a dot-com start up, needed a Chief Financial Officer to represent it at investor meetings. But there wasn't enough work or enough cash to hire a full time CFO. So it received CFO services on 'as needed basis' from its outsourcing accounting firm.

Scale is also important to a growing company like Fine Art Lease. Outsourcing allows companies to grow exponentially because the supplier has the additional capacity available. Companies burning investment capital now can have revenue of $100 million a year later and experience little or no disruption in accounting services or quality. Of course, the same applies when a company needs to shrink in size.

In today's compressed world, companies worried about remaining in the black need to consider outsourcing their accounting function. In my opinion, the decision is black and white. Outsource!

Lessons from the Outsourcing Primer

- With increased competition on the Internet, companies must focus on their core competencies. Outsourcing accounting makes sense since it's rarely a core competency.
- Outsourcing allows companies to have access to specialized accounting services like IRS audits or SEC "edgarizing" at a reasonable cost. It also allows companies to have access to world-class software if the supplier is an ASP.

With increased competition on the Internet, companies must focus on their core competencies. Outsourcing accounting makes sense since it's rarely a core competency.

- Outsourcing reduces the cost of accounting services through the supplier's economies of scale.
- Outsourcing allows a new company to grow and established companies to shrink.

Banking on outsourcing alliances

Networks are the new life form in Europe on the outsourcing front. Companies, seeking to capitalize on the competencies of other organizations, are working together to help both bottom lines. Trust is the cement of this relationship, according to Dr. Han van der Zee, director of the Nolan Norton Institute in De Meern, the Netherlands. The Institute is the research facility of KPMG Peat Marwick.

Europe is a continent defined by boundaries. The most obvious are geographic. But there are language and cultural dividing lines, too. While the Internet is blurring these boundaries, they remain a defining problem for the continent. "The main issue in Europe is to conquer these boundaries," says Van der Zee, who is a professor of information management at Tilburg University in the Netherlands.

The language difficulty is evaporating as English becomes the international tongue of business. And the geographic ties are dissolving, too. The professor says until recently a French company would only outsource to a French

provider. Germans only wanted to work with Germans. Today, the search for outsourcing partners has become global. Now companies want the best partner for the project. "They want an organization with strong skills," says the professor.

He says this desire to work with providers with superior skills is becoming more important than cost when buyers select a provider. "Cost is still important, but buyers are more interested in complementary competencies. They aren't selecting the cheapest offer," says Van der Zee.

Many of the new dot-com companies are outsourcing their accounting functions from the outset. They are able to enjoy world class accounting processes virtually overnight. Outsourcing actually allows a new company to grow and established companies to shrink.

Working together for a common success

This shift has created a subtle change in thinking. Earlier, a buyer expected the supplier to perform the work proficiently. This was how a successful outsourcing relationship worked. Now, both the buyer and the supplier have to work together to create a common success. From the perspective of the network, each participant has to keep the common goal in mind. Then, everyone can perform their roles in the spectrum.

Van der Zee says outsourcing partners now do not look at each other as adversaries. Instead, they are creating a business family where everyone works for the best of the group. "Everyone has to work together to get the financial rewards," he says. When the profits arrive, the professor says each partner takes its set percentage.

Labour shortages are fueling the move to networks. In Europe, Van der Zee says, there is a lack of skills at the high end. "Everyone is screaming for good people," he says. "If you can't hire 'em, then you have to partner with a company that is known for those skills."

Also lacking are managers skilled at managing outsourcing relationships. Managers today measure their power in how many people report to them. But in these networks, the people with power are the ones who manage the communication between the various partners. They have the power because they are the ones who keep the network together.

Buyers Balk at a Single Provider

Buyers are balking at giving all their work to one outsourcing provider. Instead, they want to build a network of organizations that can help them. Van der Zee says a maximum of three organizations form the core of this network and dominate the workflow.

He says these networks are very difficult to create because they have to override the traditional control systems in a corporation to be successful. For centuries, people in business have been taught to look out for Number One. Workers have to learn a new mindset, which is not easy.

The professor says Anglo-Saxon countries have a more difficult time with this shift. The Movies like "*Wall Street*" show how deeply ingrained the profit motive is woven into the fabric of the culture. Southern European countries, on the other hand, find it much easier to become a business family since their cultures have put more emphasis on personal relationships.

Negotiation is the operational strategy these companies use when a dispute arises. Van der Zee says they don't refer to the contract or turn to lawsuits to resolve differences. One side will lobby the other and try to influence behaviour instead of phoning their lawyers.

Another difficulty with networks is trying to determine which network to join since they are springing up like wild flowers after a spring rain. Another question to determine is how many networks a company can participate in concurrently.

Lessons from the Outsourcing Primer

- Skilled labour shortages are encouraging companies to outsource to a company that is known for the skills it needs.
- Buyers are not giving all their work to one outsourcer. Instead, they want to participate in a network of at least three outsourcers.
- Each partner in the network works for the common good of the relationship.
- Trust, not legal contracts hold these networks together.
- English is now the global business language.
- The Internet is globalizing outsourcing and helping to break down boundaries and provincialism in Europe. ■