

FINANCE Research

Exclusive Insights for CFOs

BPO in the Finance Department

German CFOs' experiences and attitudes

FINANCE

Das Magazin für Finanzchefs



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1 Introduction

Dear Readers:

The opinions of German and international finance departments differ more with regard to business process outsourcing (BPO) than almost any other subject. On one side, you'll find people who are genuinely acting on their convictions and are very excited by the capabilities of modern BPO services. They see far more than opportunities for reducing costs and also see a way to improve the quality and reliability of processes for many different applications. On the other side stand many sceptics. They often fear the loss of control over their financial processes and their facts and figures. Some of them have also personally had unfortunate experiences in the past – when outsourcing IT services for example – or have heard only negative rumours about projects of this kind.

As always, the truth lies somewhere in the middle. Convictions and good will are certainly not enough to bring a complex BPO project to a successful conclusion. Instead, this requires thorough preparation, clear agreements, and consistent implementation, often including extensive adjustments to upstream and downstream processes that cannot be outsourced. On the other hand, having reservations – which are often very general – should not be a reason for rejecting the specific benefits of certain BPO projects.

This study is therefore intended to stimulate the debate about the advantages and disadvantages of outsourcing solutions for finance departments and to help structure that debate. The empirical portion paints a picture of the current mood, which is sceptical but indicates that German CFOs can be expected to deal more with the issue of BPO in coming years. Individual in-depth discussions show where chief financial officers see possibilities for using outside service providers and where they categorically reject the outsourcing of processes.

We hope our study will provide food for thought for many CFOs of large and medium-sized companies.



Michael Eberhardt
Hewlett-Packard



Sarah Nitsche
FINANCE Research

2 Executive Summary

Optimising processes within the existing structure

The “BPO in the finance department” study shows that the people responsible for finances in German corporations are still sceptical about business process outsourcing. Only 4 percent of respondents stated that they had chosen to outsource processes as the primary way to improve the performance of their finance departments. In contrast, the vast majority (81 percent) are attempting to improve processes within their existing organisational structures.

A great need for security and a fear of losing control

The study found that various reasons were responsible for the wait-and-see attitude towards outsourcing.

- a) The need of many CFOs for security – further increased by the euro crisis – that was expressed in various parts of the survey was striking. Prolonged uncertainty about the general economic environment also obviously causes many finance chiefs to have difficulties with outsourcing, even for processes that can be mostly standardised. In addition, urgent needs typically dominate. For example, safeguarding short-term liquidity often seems to be perceived as far more important than long-term projects, such as optimising processes, that might have positive effects only over several years and might not bear fruit until after the initial investments.
- b) In addition to aspects related to security and urgency, worry about losing know-how and control also influences the attitude CFOs have towards BPO. Sixty-five percent of respondents primarily explained their hesitation by citing a potential loss of knowledge in the company. Fear of losing control is almost as strong (55 percent).
- c) Another purely practical aspect prevents the increased use of BPO: According to many CFOs, setting up a shared service centre (SSC) must logically precede complete outsourcing of certain processes. If this step has not yet been taken, outsourcing has almost no influence on further improvement of the finance department’s performance. However, only 15 percent of respondents mention setting up an SSC as the primary approach to improving their processes, so the issue of BPO subsequently plays an even more subordinate role. This reservation also shows how cautiously German CFOs approach the issue. That is because, on sober reflection, there is often no need to progressively introduce improved processes in this way.

Slow increase in openness to BPO

Although BPO is far from being seen as the primary means for increasing efficiency, 23 percent of respondents have outsourced at least some individual processes. And in spite of all of the reservations, looking ahead to the future shows that many financial officers are becoming more open-minded about the subject. Thirty-four percent of participants in the study can imagine outsourcing (additional) parts of the finance department over the next three years. The barriers to doing this are by far the lowest for functions with a high degree of standardisation. Of respondents who had already tackled the issue of BPO, about one-third have outsourced receivables management to an outside service provider, while another third could imagine taking that step over the medium term. The picture is similar for payables bookkeeping, which 23 percent have already outsourced, while 36 percent see it as conceivable over the next three years. Those numbers are 18 and 34 percent, respectively, for receivables bookkeeping. In contrast, few CFOs see sensitive fields such as financing strategy or risk management as candidates for outsourcing.

Emphasis on the strategic role of CFOs

In addition to pinpointing specific attitudes to business process outsourcing, the study also shows that German CFOs increasingly see themselves as playing a strategic role in their company. That change in their self-image is shown, for example, by the fact that 84 percent of respondents consider monitoring general business performance one of their most important duties, followed by supporting strategic development of the business (72 percent). This changing conception of their own role may offer another explanation for the hesitation about outsourcing solutions: Financial chiefs find it difficult to give up responsibility and control. They have barely made a dent in the outsourcing projects of financial departments so far. However, they may be getting in their own way, because they will not be able to assume strategic responsibility unless they delegate operational tasks – either to internal service units or to outside service providers. Nonetheless, the realisation that steps of this kind may make sense in the future, or could turn out to be unavoidable, appears to be slowly taking shape in the minds of many CFOs in Germany.

3 BPO – Past and Present

Outsourcing – a now common word in German – was chosen as the “non-word” of the year in 1996 by virtue of its controversial adoption into the German language. Although this dubious distinction is today a footnote of linguistic history at best, the period shows the negative connotation of the topic to this day. It also serves to show how ambiguous such conceptual words can prove to be since the relocation of jobs or certain processes, or outsourcing, is frequently mistaken to be synonymous with offshoring – the shift of jobs to a foreign country.

3.1 Origins in manufacturing

A look back at the history of these two concepts illustrates the close link between them. As early as the 1960s, Western companies began to outsource their production processes to economically weaker, but at the time still often domestic, regions and turn a profit from lower wage structures. With the advent of the Internet and the relocation of IT processes, mostly to Asian countries, the 1990s saw “outsourcing” become a global megatrend. At the time the chief motive was to take advantage of labour arbitrage in different regions, primarily through the outsourcing of highly standardised operations.

Rapidly advancing globalisation since then has shifted priorities, however. In particular, the gap in pay has been substantially reduced since the beginning of the century. For example, while labour costs across the EU rose by an average of 3.7 percent between 2000 and 2008, Germany registered a modest increase of just 2 percent during the same period according to data from Germany Trade & Invest – and ranked the lowest of all 27 EU member states. In emerging economies, by contrast, labour costs are growing by double digit increases in some instances and staff turnover rates are high, often nullifying nominal pay advantages.

In addition, many companies had bad experiences with their first outsourcing projects. At the beginning, the majority of outsourced projects were made up of strictly front office activities such as call centres. This was due to the labour-intensive, yet highly standardised nature of these processes coupled with an added value that was perceived as relatively low. But poor results in customer retention made follow-up investments in quality necessary or even triggered an outright trend in re-shoring. Many companies have stuck with call centres for customer relations. However, they much prefer to operate them locally or at least in their domestic market.

3.2 Shift to complex tasks

Simultaneously, businesses began to discover increasingly complex tasks, even from the back office, that they could outsource. For example, some daily newspapers now go as far as hiring graphic designers in India to design their layout. Even outsourcing processes from the finance department like bookkeeping, accounting or controlling has not just become conceivable, but is a widely practiced routine by now.

In this respect, the starting situation that CFOs face has changed drastically since their first attempts with outsourcing and offshoring. When the question about what can potentially be improved by outsourcing, specifically of financial processes, arises today, a lot more than just direct savings gets factored in. Rather, as a part of the company's overall strategy, CFOs find themselves constantly confronted by increasing complexity, rising cost pressures and intensifying international competition. The regulatory and compliance questions that have become more of a concern for finance chiefs in recent years also come into play.

3.3 Reluctance in Europe

In spite of these trends that argue for the usage of specialised service providers, there is still reluctance among CFOs across continental Europe – and especially Germany – in regards to outsourcing and BPO in their finance departments. Their scepticism is particularly striking in comparison to their peers from the Anglo-American sphere. An important factor here could be the distinct importance of small and medium-sized enterprises as well as family-owned businesses to the German economy. The often century-old entrepreneurial mentality that sets them apart has a difficult time imagining parts of the production or other processes no longer remaining in-house. But even the 30 largest publicly listed companies in Germany, the DAX 30, have also been relatively reluctant in years past. Outsourcing business processes,

especially in the finance department, seemed to be just some theoretical toying with ideas at best for a long time: what has long since been a common practice in the value chain of production is often still inconceivable for financial processes. In principle the bundling and outsourcing of processes to specialist providers could make things considerably more efficient, especially in the clearly defined processes of a finance department. BPO service providers have “industrialised” and standardised classic administrative processes for years. Nevertheless the largest companies in Germany still heavily rely on the in-house alternative: shared service centres (SSCs), in which their own employees complete specific processes for the whole company – an “internal outsourcing”.

Nonetheless, an outsourcing industry has developed in Germany and adapted to the specific needs of locally rooted businesses. Foreign providers that offer their services from faraway locations are no longer the primary service providers in the BPO sector. Instead, internationally active service

“I am sceptical about extensive outsourcing because those processes would then be out of our direct control.”

Stefan Brunn, Head of Finance, Georgsmarienhütte

providers are expanding their programmes, working from domestic locations. This helps them eliminate difficulties in communication arising from working in different time zones as well as accommodate regulatory requirements and labour law entitlements.

3.4 Huge market potential

The Hackett Group estimates that a total of 2.1 million people will work in business service jobs at European and American corporations by 2016. The group also expects the migration of such jobs into foreign countries to begin diminishing in 2014. Considering its specific characteristics there is plenty of potential sleeping in the German market. According to the Offshoring Institute, the market volume has a potential of up to €33 billion for outsourcing business processes. Compared to the current BPO market volume of roughly €2 billion, this is 15 times larger even though it only takes into account truly outsourced back office functions.

A significant increase in the market volume is clearly predicated upon a shift in the mentalities of German companies – from DAX corporations to SMEs. The potential is huge, but will only materialise if and when companies are ready to put their business processes into someone else's hands.

“I believe that many CFOs are currently in observation mode and are waiting to find out whether BPO will create an industry in the area of finance and what experience other companies will have with it.”

Bernd Hirsch, CFO, Symrise

4 Results of the Study

4.1 Method

The “BPO in the finance department – German CFOs’ experiences and attitudes” study analysed the responses of 189 financial decision-makers who participated in an anonymous online survey conducted by FINANCE-Research in January/February 2013. The group of participants was made up exclusively of people responsible for finance at the highest management levels, i.e., CFOs or managing directors in the area of finance or commercial managers. Participants work for companies that are headquartered in Germany and have annual revenues of at least €100 million. The results were also supplemented by individual in-depth interviews, which were a valuable addition for interpreting the quantitative survey. Transcripts of four of these interviews can be found in the second part of the study.

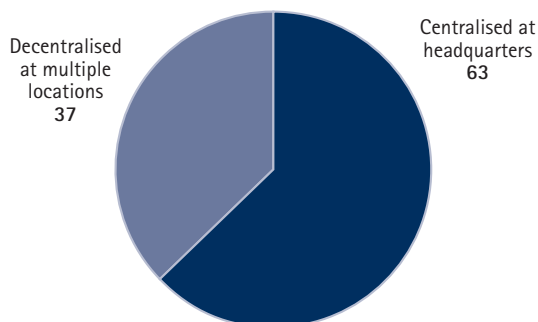
4.2 Results

4.2.1 The structure of German finance departments

German chief financial officers prefer straightforward, centralised structures for the organisation of their financial departments. Almost two-thirds of the CFOs surveyed use a centralised structure located at their company’s headquarters. The fundamental structures of German companies’ finance departments in and of themselves fulfil the prerequisites for outsourcing certain processes or process chains. That is because centralised structures simplify the standardisation of processes, which financial officers themselves often understand to be a prerequisite for later outsourcing. But, although it is relatively simple to superimpose a shared service centre (SSC) onto a centralised structure of this kind – far simpler in any event than on a financial department with a decentralised structure – most respondents have not yet created an SSC in their finance division.

The processes in an SSC structure are clearly delineated and the people who are employed there work autonomously, so SSCs simplify the step in the direction of outsourcing, for both the company and for a potential service provider. In many cases, creation of an in-house SSC organisationally – and possibly strategically – precedes a further step toward outsourcing. The relative rarity of SSCs in German finance departments therefore represents a challenge for outsourcing service providers, even though the initial situation in

How is your finance department currently structured? (in percent)

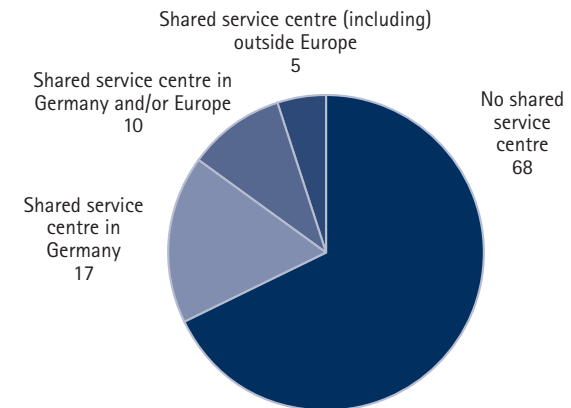


Source: FINANCE Research

Germany is good. It is also noteworthy that even companies that use the SSC as an organisational form are still loyal to the home country. More than half of companies operate their in-house SSCs in Germany, and only 5 percent of all CFOs have also set up SSCs offshore. This means that service providers' ability to deliver from Germany will often be decisive for determining whether service providers and companies can work together. In addition to quality issues, the aforementioned deep roots of German companies in their home country are also a factor. Many would find it difficult to agree to outsource to low-wage countries and run the risk of being seen in a poor light by local and regional media.

Moreover, many companies view the process of standardisation as a job they have to perform themselves, which they also do through creating SSCs. However, they see little need for further outsourcing once they have reached that level of standardisation. Says Thomas Spitzenpfeil, CFO of Carl Zeiss, "Outsourcing isn't worth it unless the processes are already standardised. But that is a step we have to take for ourselves. It's difficult if the service provider first has to clean things up."

Do you work with a shared service centre in your finance department? (in percent)



Source: FINANCE Research

4.2.2 The role of the finance department in different areas

Besides the organisational structure of the finance department, the self-perception of financial executives can also influence their openness to outsourcing options. For example, CFOs who see themselves as leaders in reaching strategic performance targets will be more inclined to give up support processes than CFOs who are heavily involved in operational work.

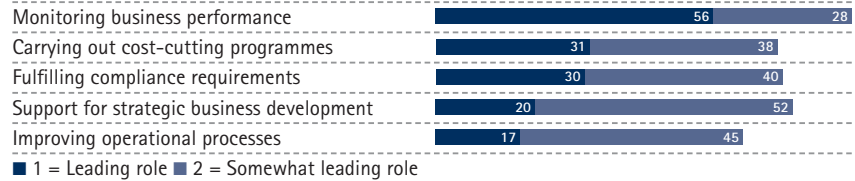
In actuality, Germany's CFOs primarily see themselves as playing a leading role in monitoring the business performance of their companies: 84 percent of financial officers see their own department in a (somewhat) leading role, and 56 percent see themselves as obviously playing the leading role. Only 8 percent tend to attribute less importance to their area in this segment. When estimating the role played by their department, respondents were self-confident, including in relation to other areas, but this was particularly clear for business performance. Only 31 percent saw themselves in a clearly leading role where cost-cutting programs are concerned, while 30 percent did for compliance issues, and only 17 percent did for improving operational processes.

This not only shows that the self-perception among CFOs is increasingly changing from bean counter to sparring partner of the CEO and someone who contributes to decisions on strategic questions, but also shows that CFOs consider their entire department to be of primary importance. Service providers have long understood this.

Where BPO is concerned, this offers an initial indication that the barriers to CFOs giving up tasks with strategic contact points are obviously much greater than the barriers to outsourcing typical financial functions. Conversely, as the general corporate responsibility of the CFO increases, the barriers to outsourcing standard and support processes within the finance departments should decrease. That makes it even more surprising that the changing self-

What role does your finance department play in these areas?

(1 = Leading role to 5 = Subsidiary role, in percent)



Source: FINANCE Research

perception of CFOs has apparently not brought with it a corresponding change in attitude towards the capabilities offered by targeted use of BPO.

If they want to be taken seriously as corporate leaders beyond their financial remit, CFOs' take on corporate performance will need to include more than just cost considerations. Instead, they increasingly need to look for the best possible relationship between value creation and cost efficiency, which can result in long-term, lasting cost advantages that (contrary to conventional cost-cutting programs) do not run the risk of saving the productive core of a company "to death".

BPO service providers can draw important conclusions from this, as BPO's promise to improve the quality of processes or compliance monitoring might just be what these modern CFOs are looking for. But for historic reasons – primarily the origins of outsourcing in manufacturing – many BPO providers have long focused the argument for outsourcing on direct cost aspects. New approaches that place more emphasis on supporting the CFO with thinking about business performance will now likely be much more interesting for the finance department than arguments based solely on costs. Instead of negative arguments, such as

lower costs or personnel expenses, modern CFOs are likely to find positive arguments such as improved performance, greater process security, or increased flexibility as a result of targeted use of resources to be far more attractive.

However, at this point, it appears to be unclear to German CFOs why specialised service providers can perform certain tasks of the finance department better than they can themselves. Individualised bookkeeping systems, customer-specific invoicing procedures, smoothly functioning interfaces between different teams – in the view of many CFOs, all of these argue in favour of retaining in-house solutions and against the outsourcing of individual processes.

“Effective support for the core business has become one of the main challenges for CFOs.”

*Michael Eberhardt,
Head of the German Enterprise Services,
Hewlett-Packard*

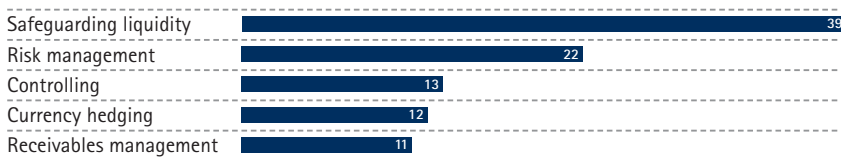
4.2.3 Current priorities due to the euro crisis

The observation that cost pressures don't cause sleepless nights for every CFO does not change the fact, however, that the pressure on financial departments in this respect is constantly increasing in general. For example, the range of answers to the question of what tasks have become more important in light of macroeconomic challenges shows how the euro crisis has increased pressure on finance departments. Thirty-nine percent of respondents to this open question put safeguarding liquidity at the very top, followed by improving (general) risk management at 22 percent. Both topics have a common denominator: the search for security. Among the most frequently mentioned responses was also the strengthening of controlling or monitoring measures to create greater transparency as a basis for improved corporate governance.

The high ranking given to security during a time of crisis offers a possible explanation for the reticence of CFOs concerning outsourcing operations. "It may sound funny right now, but I don't have a good feeling about letting too much distance come between me and my numbers," said Bernd Hirsch, CFO of Symrise, a fragrance manufacturer. This fundamental position partially explains the relatively high barriers to completely outsourcing individual functions, even those involving processes that are supposedly highly standardised.

To dispel reservations of this kind, BPO providers must learn to reduce the uncertainties of the people they are dealing with. CFOs need maximum transparency for their facts and figures at all times and must be able to control outsourced processes as directly as possible. Many BPO providers will argue that this is precisely what they offer, but many customers have not yet gotten that message. Conversely, CFOs must learn to let go. Many seem to not have realised that outsourcing processes does not lead to a loss of control with appropriate downstream monitoring capabilities after outsourcing has taken place, as well as detailed contractual provisions based on the main KPIs.

Which tasks have become more important for your finance department in view of the euro crisis? (multiple responses allowed, in percent)



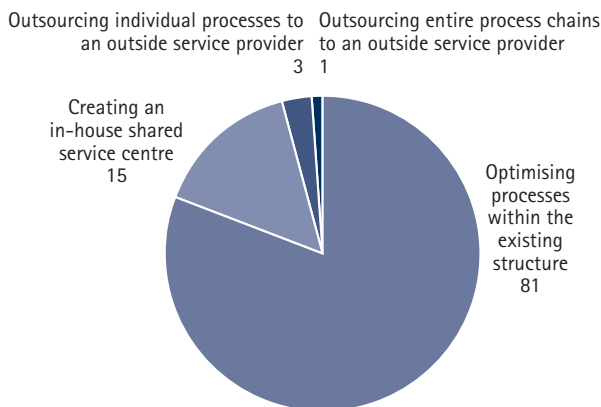
Source: FINANCE Research

4.2.4 Approaches to improving the finance department

An interesting picture results when German chief financial officers are asked about their individual approaches to improving the performance of their department. Most CFOs (81 percent) primarily attempt to do this within the limits of the existing structure. Creating an in-house SSC is considered by only 15 percent of respondents. And the outsourcing of individual processes or entire process chains is hardly mentioned: Only 4 percent of respondents are using this approach to improve the performance of their finance department – and only one in four of them can imagine outsourcing entire process chains to an outside service provider.

This view of things leads to various conclusions: CFOs appear satisfied with the basic structure of their departments and don't see a need for general restructuring. However, that fundamental conviction is somewhat contradictory to the extensive attempts to break up established processes in other functional units of a company and improve them, for example by making working time models more flexible, modularising product variants, upending supply chains, or outsourcing portions of the value chain. Here, too, finance departments seem hesitant to apply the same remedies and approaches to themselves that they have introduced into other divisions for reasons of efficiency and flexibility. The industrialisation of production processes that many companies have pursued for years is only slowly being applied to administrative processes.

What is your primary approach to improving the performance of your finance department?
(in percent)



Source: FINANCE Research

Outsourcing plays a subordinate role to the creation of SSCs in making improvements. This is probably due to the fact that the use of SSCs is generally not very popular (see 4.2.1) but is often considered, erroneously, to be a prerequisite for future outsourcing. This also reveals a fundamental misunderstanding between finance executives and outsourcing providers. The former almost automatically equate outsourcing with a loss of control and potential loss of quality, while the latter take it for granted that they offer CFOs better, more flexible, and more service-oriented access to data and personnel resources as a result of outsourcing. BPO service providers still do not seem to have succeeded across the board in convincing CFOs that they must also monitor outsourced processes and can still intervene when necessary. It seems that providers and chief financial officers still do not speak the same language in this area, as well as others.

That could, however, change in the future: Only about 25 percent of all respondents have outsourced individual portions of their finance departments, but more than one-third of respondents (34 percent) could imagine outsourcing (additional) functions from the finance department over the next three years.

In spite of all of the current reservations and impediments, these responses indicate that many CFOs are at least in observation mode with regard to potential outsourcing options. According to Bernd Hirsch, CFO of Symrise, "I believe that many colleagues are waiting and keeping a close eye on how the outsourcing industry develops. Many service providers come from IT and are not yet even perceived as BPO providers." The three-year time

horizon isn't all that long. Thinking of the run-up time to comprehensive organisational restructuring, one might even conclude that many CFOs are already considering the idea of targeted outsourcing and will soon begin planning and implementation.

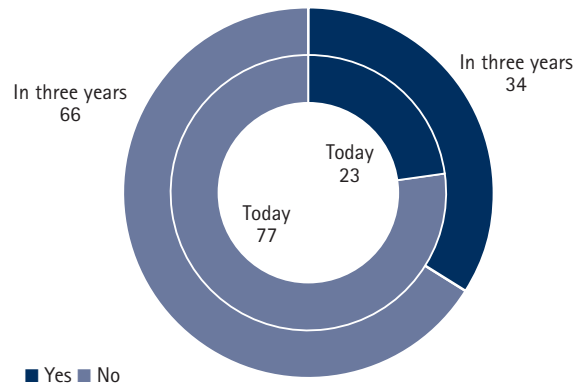
In this area, too, providers and potential customers appear not to have developed any common ideas about what exactly will become useful at what point in time and under which conditions. But the potential market resulting from these considerations alone is enormous. Based on the aforementioned calculations of the current BPO market in Germany (around €2 billion), an increase from 23 to 34 percent corresponds to market growth of about 50 percent, which is almost €1 billion over the next three years.

In no way does this estimate appear to be exaggerated. As the market matures, new fields for outsourced business processes will appear and many areas will gain a completely new relevance. For example, companies that are already using outsourcing currently exhibit a very clear demand behaviour. Receivables management is one of the main functions that finance chiefs are happy to have handled outside of their own company. Some 34 percent have outsourced this function, or at least portions of it, while 23 percent have already taken this step for payables bookkeeping and 18 percent have already taken it for the receivables bookkeeping segment. In the area of accounting, as well, 23 percent have already taken steps in the direction of outsourcing. In contrast, outsourcing of functions in the areas of compliance monitoring, reporting, financing strategy, and risk management is only marginal at present. Obviously, it is difficult for respondents to spin off functions with a low level of standardisation. This is particularly striking for areas such as financing strategy (5 percent) or risk management (2 percent). According to respondents, the latter issue has become noticeably more important for the work of finance departments due to the euro crisis (see 4.2.3). It is clear that when an area is considered more essential to a company's welfare, reservations about entrusting it to outsiders increase.

However, outsourcing might well develop at a striking pace as a medium-term option, even in areas where it is barely used today. This tendency is particularly noticeable in the area of risk management; 11 percent of respondents who could imagine outsourcing processes over the next three years would possibly entrust this aspect to outsiders. That is enormous growth compared with the 2 percent that have already taken this step. One explanation for this could be that it is increasingly difficult for companies today to protect themselves against legal risks due to constantly increasing rules and regulations. This is also shown by the clearly increasing trend of outsourcing compliance monitoring in the future.

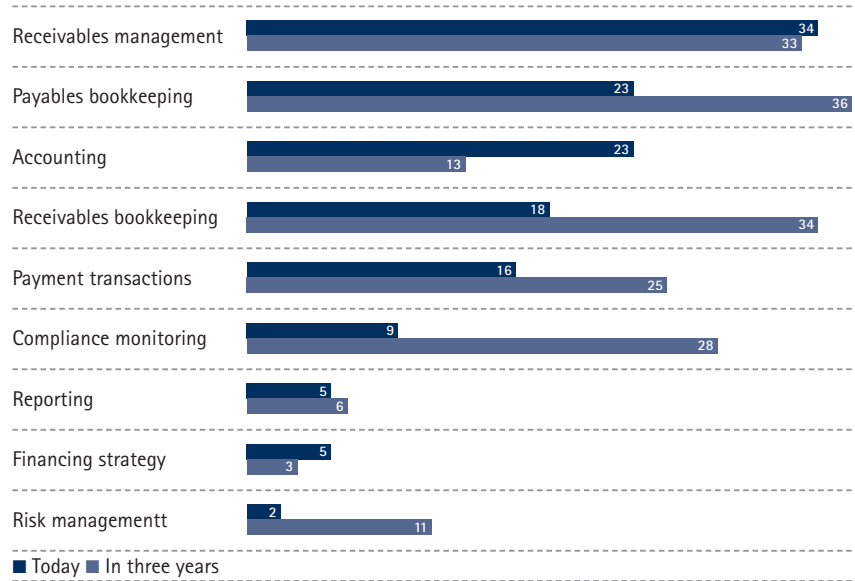
The willingness to outsource standardised areas such as receivables management, payables and receivables bookkeeping, or payment transactions is also increasing, sometimes considerably, although much less strongly than for risk management. CFOs seem to be increasingly willing to consider outsourcing the keeping of subsidiary ledgers: In the area

Have you outsourced parts of the finance department or can you imagine doing so over the next three years?
(in percent)



Source: FINANCE Research

What areas of the finance department have you outsourced or which ones would you consider outsourcing in the next three years?
 (Multiple answers allowed, in percent)



Source: FINANCE Research

of payables bookkeeping, the percentage of CFOs who can imagine taking this step over the next three years is about 50 percent greater than the current level, and almost twice as many CFOs can imagine outsourcing receivables bookkeeping in the near future compared with the status quo. From the viewpoint of participants, it appears that the subject of payment transactions will soon become more interesting where BPO is concerned. It is likely that continuing progress in automation in this area will also be a major factor – the market for standard software solutions in this segment has now become established, which may make it clearer to CFOs that outsourcing the company’s payment transactions is no longer subject to insurmountable obstacles.

The majority of CFOs questioned still has considerable reservations and responds with doubts about specific BPO options, but the subject does seem to be becoming more attractive when viewed conceptually and as a future option.

4.2.5 Impediments on the path to BPO

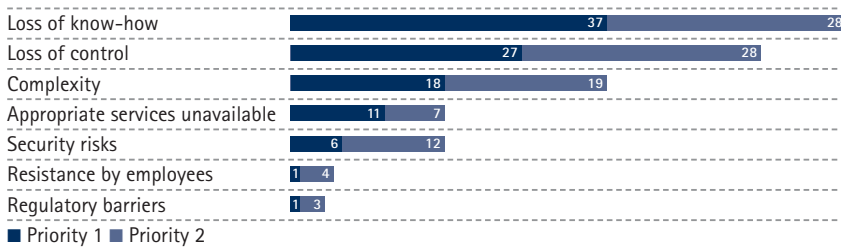
The primary aspect still causing CFOs to shy away from the issue of outsourcing is concern over losing know-how. Sixty-five percent mention that factor as an impediment and for 37 percent it is the strongest argument among all possible choices, against outsourcing financial functions. The possible loss of control also plays an important role in this area. Overall, that aspect represents a decisive reason for more than half of study participants to reject outsourcing. Far fewer were discouraged by the complexity of a step of this kind.

In this context, it is striking that only a small portion of the financial officers who were questioned see the lack of services or inappropriate services offered by BPO providers as a decisive reason to decide against outsourcing. Either most respondents have not come far enough to be concerned about the quality and content of BPO services, or they consider them to be fundamentally acceptable and appropriate, but decided against outsourcing for other reasons. In the former case, providers must simply make people aware of their services, and in the latter case they must be more convincing.

It is also noteworthy that one of the factors frequently discussed in the media is obviously of negligible importance for CFOs. Very few of them consider potential resistance by their own employees to be an impediment. However, that low level may be at least partially due to the erroneous assumption that the BPO provider would automatically take on their employees.

What factors keep you from outsourcing financial areas?

(Priority of the primary impediments, in percent)



Source: FINANCE Research

5 In-depth Interviews

5.1 "Much of the savings we expected never materialised"



Bernd Hirsch,
CFO, Symrise

Superficial contracts that weren't thought through: Symrise, a supplier of fragrances and flavourings, had a bad experience when outsourcing its IT activities, making CFO Bernd Hirsch hesitant about BPO. Although he's keeping a close eye on the market, Hirsch finds it hard to imagine outsourcing processes from the finance department.

>> Mr. Hirsch, the subject of outsourcing is nothing new for Symrise.

<< That's right. We have outsourced technology, logistics, and IT. In the first two cases the restructuring measures significantly improved our competitiveness, so the technology and logistics divisions have now been spun off into wholly-owned Symrise subsidiaries, which are clearly demarcated. In principle, they operate as shared service centres working for us and for outside customers. Things are going so well that we now have to be careful they don't neglect the parent company.

>> Were you as successful with IT?

<< It depends on how you take it. At first glance, outsourcing worked; the division and its 150 employees were taken on by an outside service provider. But I'm certainly not satisfied with the result. The structure of the contract is very lean, in other words superficial. That means we have to personally resolve many details that crop up in day-to-day business and pay separately for individual services. That takes a lot of effort. But more importantly, much of the savings that we expected on paper never materialised. The fault certainly isn't with the service provider alone. Rather, we simply didn't take enough time when preparing the contract. And we're paying for it now.

>> Can you imagine a new start with outsourcing in the finance department?

<< I have a very clear preference for in-house solutions. When I outsource to third parties, they have to be able to do the job better than I can. That means they have to have at least the same expertise and operate more efficiently. I find it hard to imagine this for processes relating to the general ledgers, for example when I have to decide what reserves to set aside. If outsourcing is possible, in my view it would involve standardised processes in the subsidiary ledgers, such as payables bookkeeping or receivables bookkeeping. There is certainly some potential for efficiency in those areas thanks to standardisation and centralisation. That's why we are setting up shared services at the European level for the first time.

>> But then why not just outsource the whole thing all at once?

<< First, it is certainly a question of personal preferences whether or not one wants to hand processes of this kind over to others, which would certainly be possible. But there are other considerations. In our organisation, for example, based on our size and complexity, I don't see much potential for savings that could be achieved by taking a step of this kind. I wouldn't outsource any area for savings in the six-figure range. I can save that much with less disruptive actions. There's also the fear of losing control. It may sound funny right now, but I don't have a good feeling about letting too much distance come between me and my numbers.

>> Can you imagine lowering those psychological barriers over time? After all, outsourcing has become an established practice in other areas such as production.

<< Perhaps that's easier to do for real products rather than for intangible services such as those in the finance department. On the other hand, I certainly believe that many CFOs are currently in observation mode and are waiting to find out whether BPO will create an industry in the area of finance and what experience other companies will have with it. Many service providers that are currently on the market come from IT and nobody thinks of them as BPO providers for the finance department.

5.2 "You don't have to do everything by yourself"

The priority at Carl Zeiss AG is currently on creating an in-house shared service centre for accounting. But chief financial officer Thomas Spitzenpfeil is also willing to consider BPO in individual areas of the finance departments – in spite of some reservations.

>> Mr. Spitzenpfeil, you are currently setting up an in-house shared service centre (SSC) in Poland. Why?

<< We are centralising the processes of our European accounting. Our German locations are already served by a shared service centre in Germany, so we know that centralisation offers significant streamlining effects compared with our current decentralised structure. To be successful using shared services in the international context, this step requires – in addition to labour arbitrage – the availability of well-trained employees with knowledge of foreign languages. That's how we determined Poland to be the best location for us.

>> But why did you decide on an SSC variant?

<< In fact, we had previously considered using a service provider and outsourcing our European accounting. But we ultimately decided against that, because we thought outsourcing wouldn't be worth it unless our processes and IT systems had already been standardised. If you bring a service provider on board and it has to clean things up first, then in my opinion things will get very difficult and also very expensive.

>> Have you had some experience with outsourcing before?

<< We outsourced considerable portions of our IT to an outside service provider about ten years ago. However, we're now bringing back key processes such as application management.

>> How did it come to that?

<< A lot of things about outsourcing sound good at first. In actuality, however, many things don't work the way you imagine they will. In the IT project I mentioned, we realised that when our own people tackle problems or tasks they have completely different incentives and a perspective that is much more specific to the company. That's why I tend to be hesitant about outsourcing in general. But that doesn't mean you have to do everything by yourself. Standardised processes and services such as operation of the computer centre or logistics are very suitable for outsourcing to specialists.

>> What has been your experience with external employees?

<< If I entrust key processes that are specific to our company to an outside service provider, its employees certainly can't identify with our company and our target system the way our own employees do. That's normal, because the service provider's employees primarily repre-



Thomas Spitzenpfeil,
CFO, Carl Zeiss

sent the interests of their own company, and their incentive structures are usually different from that of our in-house employees. For example, having a good knowledge of company procedures and identifying with the company's objectives are generally indispensable for further development of key IT systems.

>> Could you set aside the issue of identifying with the company if you could considerably reduce costs by outsourcing?

<< That would be short-sighted in my view. Generally speaking, any gains in efficiency from outsourcing key processes are only on paper. For example, you cannot underestimate the repercussions of outsourcing a certain area has on the work done in other areas. Furthermore, in my view, the company itself can suffer when – as I said – outside employees are thinking first about their own revenue and not about the best solution for our company. A service provider will sometimes “work to rule,” while in-house employees will tackle issues with all their heart. Ultimately, you shouldn't forget the psychological effects on employees who may not even be involved in the outsourcing but are now wondering whether they'll be next.

“If you bring a service provider on board and it has to clean things up first, it will get very difficult and also very expensive.”

Thomas Spitzenpfeil, CFO, Carl Zeiss

>> Those are surprisingly emotional arguments for a financial officer.

<< That doesn't make them any less valid. I'm a great proponent of standardisation in areas that don't differentiate a company from the competition or involve commodity processes. In those areas, outsourcing can help make improvements and reduce costs. But I doubt that the model of a service provider, which necessarily has to be standardised, can be adapted to all relevant specifics and special issues of a company. And even if this were possible after a lot of fine-tuning and individual agreements, the savings probably wouldn't be all that great. But in the worst case you've handed key competencies over to an outsider.

>> But many service providers specifically offer to take on non-standardised processes.

<< I find it hard to imagine that outsourcing would make sense for non-standardised processes. These are processes that may differentiate a company from its competitors and for which key knowledge specific to the company – some

of which may also be highly confidential – in a department takes centre stage. That would increase the difficulties that I already see for certain standard processes.

5.3 "Attitudes toward BPO depend on corporate culture"

Stefan Brunn finds it hard to imagine giving up the supervision of processes within the finance department. Unless that happens, the Head of Finance at Georgsmarienhütte, a supplier of quality steel, sees practically no opportunity for reducing costs through outsourcing.

>> Mr. Brunn, are you dealing with the issue of outsourcing at Georgsmarienhütte?

<< I certainly see a need to make improvements in our finance department. But the fundamental question that I ask myself is the extent to which tasks can, and should, be handed over to others or if it wouldn't be better to seek solutions within the group.

>> Do you have an answer to that?

<< Not a conclusive one. But I am somewhat sceptical about extensive outsourcing because those processes would then be out of our direct control.

>> You say "somewhat sceptical." So are there areas for which you could generally envision using an outside service provider?

<< Certainly. For example, processing invoices. But even there we would like to retain control of the processes above all. Invoices really have something disciplinary about them: It's easier to accept an invoice with the click of a mouse and see it disappear from the screen than physically signing one. In my view, the final entry should at least take place in-house. I don't know whether you then really save much by outsourcing the processing. We are just beginning to analyse that.

>> But these are typical of the ideal standard processes for a BPO service provider.

<< You may be right, but the security aspect in this area keeps me from handing over responsibility to outsiders. Call me old fashioned, but I want to get a feeling for the quantity and volume of the invoices that are coming in, for example. If I have those processes handled externally, then I no longer get a look at the invoices. Also, I would have to hand over a lot of data or even allow the service provider to access our SAP system, which I can't really imagine doing.

>> Does that also apply when this could give you some leeway in other areas?

<< The objective must be to improve the department so employees will have more time to carry out key processes. If you look at it that way, attitudes toward BPO are probably also a question of corporate culture.

>> Doesn't it ultimately involve a cost-benefit calculation?

<< I really doubt that the bottom line shows that outsourcing can save money. As I understand things, the internal costs for a process can never be reduced to zero, even if I outsource that process to others. I will still need someone to supervise it and there is a certain cost to that. For example, I could never outsource processes such as the final approval of invoices to an outside provider. But that makes the question about the net benefit of outsourcing even more complex, and I've never received a conclusive answer to this.



GMH Holding

Stefan Brunn,
Head of Finance,
Georgsmarienhütte

5.4 "The CFO always retains control"



Michael Eberhardt,
Head of the German Enterprise
Services, Hewlett-Packard

German companies still feel cautious towards BPO. Michael Eberhardt, who heads the German Enterprise Services business of Hewlett-Packard, is convinced that many CFOs' concerns are unjustified and that many misunderstandings can be cleared up.

>> Mr. Eberhardt, in-house shared service centres are increasingly popular with companies. For example, E.ON and Deutsche Börse recently set up SSCs for their bookkeeping. But BPO projects that outsource entire processes are still very rare. Why?

<< A fundamental distinction must be made between processes that relate to a company's core competencies and those that just provide support. The latter are generally suitable for outsourcing. Then the question about which services can be significantly digitised and automated arises. All highly rule-based processes that can be industrialised are appropriate for business process outsourcing and can also generally be completed more efficiently that way.

>> Our study shows that many CFOs still have reservations about outsourcing. Most of them fear the complexity of the projects and the risk of losing control. Are they right?

<< No, I don't think they are. Naturally, outsourcing means that employees sitting on the other side, who have previously provided the service themselves, must leave their comfort zone and move away from saying, "I'll do that myself" towards saying, "I'll provide guidance for an outside provider." And naturally the fear of creating dependencies and losing control is always present. But the more rule-based and standardised tasks are, the more they are actually interchangeable for the customer. This may not be the best thing for us as service providers, but companies that have already outsourced processes usually realise that they can change from partner A to partner B or move from outsourcing back to in-house solutions.

>> Choosing new partners is a good point. German financial officers obviously still do not genuinely perceive BPO service providers as partners. On the contrary – it appears that the finance chiefs still feel a lot of mistrust.

<< A certain amount of mistrust is very natural and healthy for long-term contracts of any kind. A great deal is at stake for a company. The hesitation will be eliminated only when the CFO is convinced of the project goals and the cost-benefit ratio, so the service provider must emphasise openness and transparency as much as possible where those issues are concerned. One vital component is a benchmark clause, for example. The customer can evaluate the costs of the contract several times during its term. This gives the client constant control over costs and avoids having the provider starting off inexpensively and then charging for unexpected additional costs at the end. However, it is also in the interest of the provider for the contract to specify the scope of duties as accurately as possible. That prevents disputes, while tasks that were originally not included in the contract – this also happens – can be covered by separate agreements. Good contract templates already exist. This means that the fear of not agreeing on the structure of a contract and the scope of performance is unfounded.

>> Many CFOs think they must first standardise in-house processes themselves before they can entrust them to an outside provider. Do you agree that a smoothly functioning shared service centre is a fundamental prerequisite for a BPO project?

<< No, that's not necessarily so. We have often had BPO customers who were not mature enough to create their own shared service centre. An SSC project brings political pressures with it, and they shouldn't be underestimated. The CFO needs a corresponding message for his employees; he must centralise and, if necessary, take major HR measures within the organisation, standardise and digitise processes, and in many cases redefine them. It can take

years before an SSC functions properly. Therefore, the advisability of a project of this kind – whether or not it is a preliminary step before outsourcing – always depends on what exactly needs to be achieved. I have already experienced many cases in which customers deliberately avoided this step and preferred to hand the work directly over to an external provider because it had the infrastructure, software, smoothly running processes, and experience.

>> Our results indicate that German CFOs are slowly opening up to the subject of BPO. Many financial officers can at least imagine outsourcing processes within the next three years. What do you think of such declarations of intent?

<< I believe many CFOs' thinking has matured considerably over the past two or three years. Major external factors are forcing CFOs to consider alternatives. First, regulation is becoming stricter, which makes compliance more important. Second, companies are subject to a volatile pressure to perform, so they have to respond faster to peaks and valleys. Third, due to demographic change and the lack of skilled employees, CFOs are having problems finding good employees in many regions. On top of that, cost pressures are relentlessly increasing. This ultimately means that many standard processes must be purchased less expensively over the short or long term, and the ability of BPO to individualise a combination of industrialisation, standardisation, and labour arbitrage is therefore just the ticket in many cases.

>> CFOs tend to outsource three specific processes the most: compliance monitoring, payment transactions, and bookkeeping. Why those three?

<< These are primarily processes whose support function has already been emphasised, and they need not necessarily be counted among the core competencies of a CFO. Companies hardly differentiate themselves where these processes are concerned – they may be good or bad, but even when they're good they offer no competitive advantage for the company. That makes them good examples of functions that can easily be outsourced as long as the quality of the process doesn't suffer – and in many cases it actually improves as a result of outsourcing. I'm convinced that a lot will be happening in this area in coming years.

“All high-grade rule-based processes that can be industrialised are appropriate for business process outsourcing and can generally also be provided more efficiently that way.”

*Michael Eberhardt,
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