



# WHAT TO & WHAT NOT TO OUTSOURCE

Part II of a IV part whitepaper series



*SUNDARAM BUSINESS SERVICES*

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# FOREWORD

Accounting firms are expected to create more value for their clients in terms of strategic advice, support on making the right investments, effective management of working capital, better tax management and to provide insights on profit drivers. To live up to these expectations, the accounting firms should have people who are domain experts and who have more time to engage with customers.

In our previous Thought Paper – “Leverage outsourcing to develop your practice”, we discussed how accounting firms can make way for their people to deliver premium services by relieving them from routine jobs through use of outsourcing.

Additionally, outsourcing is the optimal solution for challenges relating to:

- Increasing cost of operations
- Capability to scale up quickly to capitalize on new business opportunities; and
- Delivering a consistent and continually improving process

With constant technological and process advancements happening in the industry, outsourcing provides a lot of opportunities for medium sized firms to compete with the top firms by adopting industry best practices.

This leads us to the premise of this thought paper, “What to and What not to outsource”. Here we analyze the principles behind scoping an outsourcing arrangement and determining priorities for jobs that can be outsourced. Once all the stakeholders are on the same page with regard to the objective and scope of outsourcing, then it is merely a matter of putting the theory into practice.

## WHAT DO YOU INFER FROM THE TWO PICTURES BELOW?

### WHICH WILL BE YOUR DESIRED PROCESS STATE?



## HOW DO WE REACH THE DESIRED PROCESS STATE

This process makeover typically involves the following sequence:

- Record the current process
- Perform value stream mapping
- Identify process leakages
- Perform risk assessment
- Re-engineer the process
- Define Key Performance Indicators
- Identify Roles, Tasks & Competencies for the process
- Identify People for various Roles
- Define Process Governance Mechanism
- Manage change acceptance by people
- Manage technology changes
- Ensure process compliance
- Continuously evolve and improve the process

**Disclaimer:** Any steps omitted in the above sequence are intentional and in the interest of brevity! There is a lot more to process improvement.

## DO BUSINESSES HAVE THE TIME AND RESOURCES TO INVEST ON THEIR PROCESS TRANSFORMATION JOURNEY?

Some firms embark on this process improvement journey by themselves. However, this takes up a lot of time and effort. By the time the benefits start showing up in the process, the management time and resources involved would invariably make partners question the viability of the time and effort spent on such improvement activities. However, sandwiched between downward price pressure and higher demands of compliance, being stuck in the status quo is not an option. That is where outsourcing comes in.



## HOW IS IT THAT THE OUTSOURCED SERVICE PROVIDERS CAN EVOLVE THEIR PROCESSES BETTER?

The advantage that such service providers have is that any process improvement efforts can be extended to all their other processes. For an outsourced service provider the benefits are multiplied by the number of processes that the improvements can be applied to and make the investment economical through the large scale application.

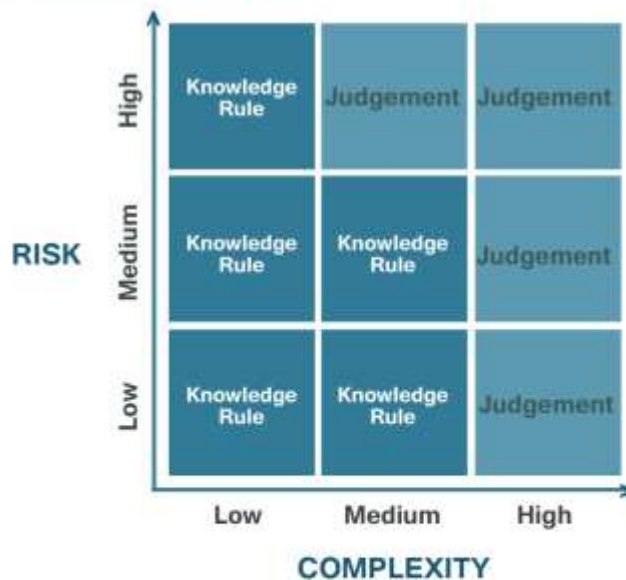
Service providers are ideally placed to deliver improvements, controls and automation on processes. This is because of having access to a variety of client environments spread across industries and geographies. It allows cross pollination of best practices.

## SO WHAT DO WE OUTSOURCE OR WHAT DO WE RETAIN?

Before we discuss what can be outsourced and what cannot be, it is important to view the activities in a process through the Judgement-Knowledge-Rule prism.

	RULE	KNOWLEDGE	JUDGEMENT
<b>Complexity</b>	Low	Medium	High
<b>Predictability</b>	High	High	Low
<b>People Dependence</b>	Low	Medium	High
<b>Nature of Activities</b>	Routine	More routine than strategic	Strategic
<b>Example</b>	Processing an invoice based on the Purchase Order Conditions, certification of receipt of goods or service, accuracy of invoice computation, and Approval Authority matrix.	Treatment of GST based on the accounting principles and the applicable regulations.	Prioritizing vendor payments based on negotiation leverage and expected inflow of funds

## PROCESS RISK & COMPLEXITY



## AN ILLUSTRATIVE CLASSIFICATION OF ACTIVITIES WITHIN AN ACCOUNTING FIRM

Activity List	Dominant Character	Complexity	Predictability	Nature
<b>STRATEGIC</b>				
REVENUE FORECASTING	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
CASH FLOW FORECASTING	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
ADVICE ON WORKING CAPITAL MANAGEMENT	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
REVIEW FINANCIAL STATEMENTS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
<b>OPERATIONAL</b>				
INDEX ALL INVOICES & SUPPORTING DOCUMENTS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
ACCOUNTING ALL RECEIPTS & PAYMENTS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
PREPARE TAX STATEMENTS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
RECONCILE BANK ACCOUNTS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
RECONCILE FIXED ASSETS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic
RECONCILE DEBTORS & CREDITORS	Judgement Knowledge Rule	High Medium Low	High Medium Low	Operational Strategic

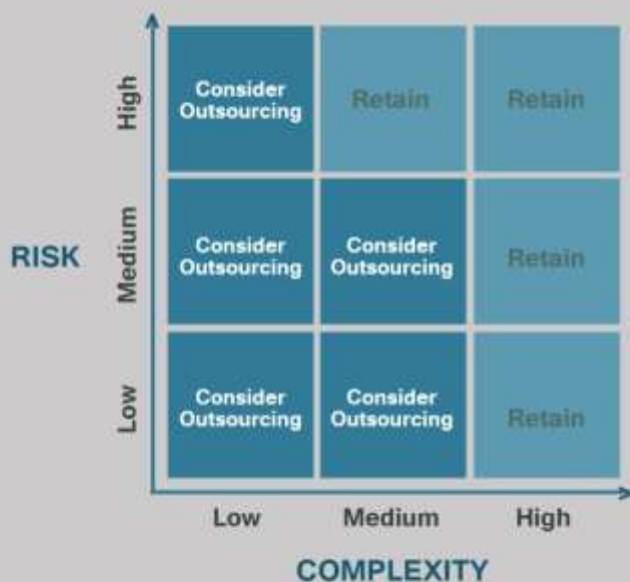
## RECOMMENDATIONS FOR WHAT TO AND WHAT NOT TO OUTSOURCE

### • Rule and Knowledge Based Activities: Outsource or Automate

The decision to automate is driven by a positive effort to reward a relationship. Until the point when the costs to automate and to further manage the system is higher than the derived value of processing the transactions, automation is not feasible. If the automation costs (both explicit and management time) are significantly lower than the financial benefits, automation is a good option. Outsourcing is a good option in both scenarios and does not involve the initial investments of automation and can provide similar recurring benefits. Outsourcing also brings with it flexibility, as you are not locked in to an outsourced service provider like you are locked in to a software investment.

### • Judgment Based Activities: Retain and Specialize

These are the activities that come out as the core competencies of a business. This is the space that allows a business to create a loyal customer base, make them stand out from their competition and help them command a premium charge for their services.



**FOR AN ACCOUNTING FIRM, WITH PROCESSES STRUCTURED IN AN IDEAL PROCESS PYRAMID, ABOUT 60% OF ACTIVITIES ARE OPERATIONAL AND CAN BE OUTSOURCED.**

What this means is the business gets at least 50% (50% of the 60% transactional activity time, since 10% of time will still be needed to manage the outsourced service provider) additional time from outsourced activities. So how important is this time for growing the business?

## MORE TIME CREATES MORE OPPORTUNITIES TO GROW THE BUSINESS



**Value Creation**



**Client Engagement**



**Newer Geographies**



**Newer Services**

Our experience shows that firms that redeploy their time and staff towards higher value creating activities, more client face time and engagement, newer customer segments and newer services achieve a much higher rate of growth than those who spend more of their time in process activities.

### THE OUTSOURCING MODEL

Accounting firms have cycles of lean and peak business seasons because of monthly, quarterly and yearly finalization of accounts, and lodgment of taxes during specific periods. In many instances, due to the skewed processing volumes, the accounting firms are left with a tricky situation to arrive at the optimum staffing model for their business.

#### Questions in partner's mind while making staffing decisions:

- Should we staff for the expected peak transaction volumes?
- If so, how will the resources be occupied when the transaction volumes are less?
- Will the business be able to justify the salary costs of underutilized resources?

#### Traditionally the choices made by accounting firms

- Hire part-time staff to work only when needed
- Engage a service provider to work during peak periods

#### On-demand Outsourcing

On-demand outsourcing works like a plug and play model. This model may work in scenarios like outsourcing of HR recruitment or IT support activities of an accounting firm. **However when it comes to outsourcing of the core activities of an accounting firm, on-demand outsourcing is not recommended.**



## WHY IS ON-DEMAND OUTSOURCING NOT RECOMMENDED?

### **Process improvements are not possible**

In the on-demand outsourcing model, there is no long-term relationship with the service provider. Hence the service provider is unable to invest on the process and bring about process improvements.

### **The need for more Administrative support**

To meet the expectations of the job, the service provider has to study the process in detail and recognize the nuances involved. Though accounting services is a universal process, the little nuances that each accounting firm carries make them unique for their customers. Given that the job is only for a temporary period, the service provider will not be in a position to cover these variations in their services. Hence the accounting firm is required to cover up for this gap in understanding and invest more time on the process. **In fact, while adopting this model, accounting firms end up putting in more efforts than what they would otherwise do and the model becomes counter-productive.** On-demand outsourcing is typically used only when the accounting firms have performed their due diligence in selecting their vendor of choice and they would like to try out the vendor before signing them up for a longer stint.

## THE ONGOING OUTSOURCING MODEL

When the accounting firms commit a fixed volume to the outsourced service provider, a process due diligence and transition planning is carried out. During this process, the service provider is able to understand the process in detail, focus on the finer aspects specific to the working style of your firm and identify improvement areas. Over a period of time the process undergoes transformation into the ideal process pyramid that makes it independent of people.

**This is the model that gives the accounting firm at least 50% additional time and an equivalent value of direct cost savings!**

## IN SUMMARY

Some outsourcing arrangements work well and several others fail. Among the ones that fail, the reason quoted most often is inappropriate scoping. Outsourcing provides many benefits if done right and the journey starts with being clear on what to and what not to outsource. In this white paper, we have taken you through our ideas on how to scope correctly while outsourcing, so that both the parties are clear on the roles and responsibilities and the likelihood of attaining your desired outcomes increases.

In our next white paper in this series, we will go over the outsourcing journey in an organisation. Based on business requirements, the outsourcing objectives may be arrived at; but this needs to be sold internally to shareholders and employees. Then there is the critical exercise of choosing a trusted service provider who can align with the company in terms of values, vision, capabilities, and service delivery. To know more on these areas, watch this space!

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## ABOUT US

Sundaram Business Services (SBS) is a global outsourcing company with over 1,000 employees serving over 100 clients across Australia, UK, India and Singapore. With over 13 years of experience, we help customers achieve higher efficiency, control costs and reduce risk, while leveraging our experience to improve operations.

Our core business has been to provide accounting and operational back office support in the areas of Finance & Accounting , Superannuation fund administration & superannuation audits, Financial planning , Mortgage processing and Portfolio management services.

Sundaram Business Services Ltd. is a wholly owned subsidiary of Sundaram Finance Limited. With a balance sheet size of USD 4 billion, Sundaram Finance is one of India's largest financial services companies, engaged in creating value for over 1.65 million customers for over 60 years through its 600+ branches.



***SUNDARAM BUSINESS SERVICES***

### **AUSTRALIA**

Suite 6.05, Level 6  
2 Queen Street Melbourne  
Victoria 3000  
+61 3 9620 5634

### **UNITED KINGDOM**

Level 17, Dashwood House  
69 Old Broad Street  
London EC2M 1QX  
+44 02036081318

### **INDIA**

20, Patullos Road  
Chennai - 600002  
Tamil Nadu  
+91 44 2859 9900

[marketing@sundarambpo.com](mailto:marketing@sundarambpo.com)

[www.sundarambizserv.com](http://www.sundarambizserv.com)