

Offshoring White Paper

There is a growing interest in offshoring among accounting practices wishing to outsource their finance and accounting functions, it originally started as a cost saving technique but now business process outsourcing is considered a strategic initiative for many accountants in practice who want to remain competitive in the both the local and global market.

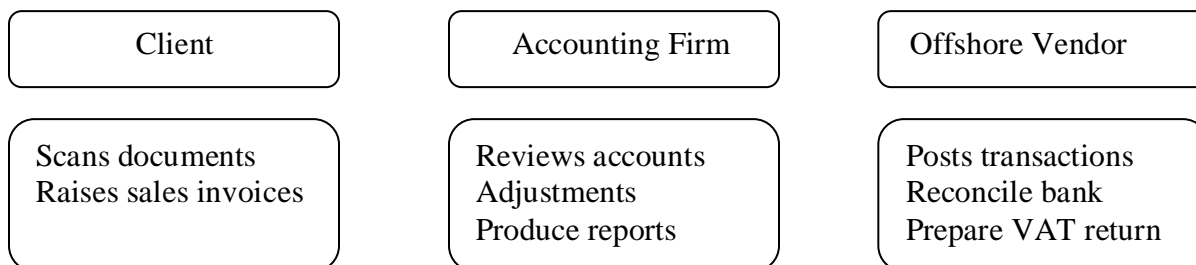
As the size and complexity of offshoring projects grow, companies need to manage multiple offshoring vendors and the success of these depends on coordination between different vendors located in different countries and time-zones. In this white paper we will seek to explore how all businesses can be successful at offshoring whilst examining the misconceptions and the pitfalls to avoid.

Some businesses may not have the right resources to find suitable service providers to offshore their finance and accounting functions. Nevertheless just like blue chip companies, all businesses can successfully offshore financial and accounting functions, and can achieve all the benefits of offshoring many blue chip businesses enjoy.

Step 1: Identifying What Finance and Accounting Functions to Offshore

It is vital to decide exactly what work is going to be offshored and what is to be retained within the practice. A detailed workflow chart must be produced and clearly understood by all stakeholders, both within the practice and offshore vendor. Once this has been agreed, you need to decide on the accounting system to use VPN access to your own systems or on-line web-based systems.

Transferring the documents and how to access them between the offshore vendor, your staff and the client is a critical issue to streamlining the process. The workflow can come to an abrupt halt if business documents are lost or delayed in the post. A system that allows the scanning and storing of business documents (e.g. invoices, purchase orders, sales contracts etc.) linked to the accounts or transactions to which they relate simplifies this issue considerably.



Streamlining the process between the offshore vendor and your own staff is also vital to avoid overlaps and duplication - and ultimately eroded margins. Tracking the time spent on each client and being able to audit trail all postings and adjustments made can greatly assist in monitoring productivity. This also facilitates tracing the source of postings and more importantly, adjustments/corrections.

Finally, things will inevitably not always work to plan and problems will arise, particularly at the outset. It is therefore vital to have a very transparent escalation process and review where problems arise so they can be avoided in the future. This requires clear guidelines for the offshore vendor and a system with the ability to make amendments and corrections easily, but with the controls to ensure all changes are audit trailed and the integrity of the accounts is not compromised.

Once you made the decision to offshore your, first step is to find out if you are going to offshore the complete finance and accounting business process or just initially some specific functions within this area.

If you're offshoring for the first time it is better to offshore some specific functions within the finance and accounting process and then incrementally offshore the entire function.

The best way to discover what functions to offshore is to ask the following questions and find answers to them: -

Q. What are you trying to achieve?

A. It is purely cost savings or a better service at same cost, or it could be making work more interesting for your existing staff by removing the drudgery of transaction entry and allowing them to work on other more beneficial practice work.

Q. What are the non-critical Finance and accounting functions that can be offshored with minimal guidelines to the offshore vendor or involvement from your employees?

A. The answer to this question will be repetitive tasks that are non-core to your accounting process but needs to be finished for your complete finance and accounting process. Since these functions require minimal guidelines, the offshore vendor can certainly complete it without much help from your employees.

Q How the finished work from the offshore vendor will be integrated into your complete finance and accounting process?

A. Think about the bigger picture of your company's complete finance and accounting process, and you can start planning how the finished work can be integrated to the complete process with minimal internal changes. The use of a fully integrated SaaS accounting solution will reduce errors and ensure all parties i.e. you, the vendor and where necessary the client can access the data from anywhere at anytime.

Q. How the offshoring will affect your employees who are performing those functions now?

A. This is a crucial question, which needs to be answered; so as to make your entire offshore process a success and it varies from industry to industry. Often times several offshore accounting projects fail simply because the

internal staff have not had a proper explanation of the changes they need to go through due to some or all of their responsibilities being offshored, and what new responsibilities they will have in the company.

Q. How the instructions for performing the finance and accounting functions will be communicated to the offshore vendor?

A. The answer to this question will determine if you need to invest in any new software (Online accounting software, accounting software license, Secure FTP, etc) and hardware technologies to transfer the work and instructions to the offshore vendor.

Q. How the finished finance and accounting function from the offshore vendor can be measured for quality?

A. Perform a baseline measurement prior to offshoring i.e. Hours spent on data entry, number of transaction entered and client yield. Using these benchmark metrics you can compare the work performed by your employees and can compare it with the work completed by offshore vendor. Without proper offshore benchmark measurement it will be tough for you to justify the cost associated with offshoring.

Step 2: Selection of Finance and Accounting Offshore Provider

Look for an offshore vendor that you have been able to check out or has been personally recommended to you. There are a vast number of organisations offering these services in places like India, Pakistan, China and the Pacific Rim and as in all walks of life some are good and some are bad. Success is significantly more likely if you work with an outsource partner with a track record, whose competence or suitability can be verified. It is however important to realise that there will be teething problems and not to jump to conclusions too quickly - hopefully it will be a long-term relationship. If you can't get any personal recommendations, ask for some reference sites you can talk to. You can trial it on a gradual basis to minimise the learning curve involved. They may have processes and systems that they already use but remember you may become too tied into them if you do not drive this element or at least have systems and processes you can easily move elsewhere. Finally, it is worth asking if they have a local representative or office; this is a clear indication of their commitment and focus to the process. Also getting an indication of the following:-

- Are they willing to use your in house system?
- What experience do they have with SME's as opposed to larger companies
- What are the qualifications for the staff employed

AccountsIQ have partnered with Rendition Digital an Irish owned company providing a range of Business Process Outsourcing services from a low cost centre in Manila. In addition to Finance and Accounting Outsourcing, Rendition Digital provides Software and Web Development services as well as Multimedia Services. RD has a staff of about 300 people. The Manila operation is managed by the Company COO Dan Flaherty, who is a CPA and a former manager at Grant Thornton in the US.

Simple questions that require answers

Do they have existing customers that you can do a reference check?

If the offshore vendor has existing customers then you can get valuable feedback from them about the offshore vendor.

How long have they been in business?

Often times the relationship you establish with an offshore vendor will be long-term, so it is crucial that you find out how long the offshore vendor has been in business and how well they're doing in the market place.

What are the offshore vendors finance and accounting service offerings?

Not all offshore accounting vendors are the same, find out what the offshore vendor's specialisation is and see if they can be a good fit for your work.

How has the offshore vendor been setup in handling privacy, security, and confidentiality of data?

This is a very critical element in choosing a right offshore vendor, you will be giving access to vital data to an offshore vendor, and you need to make sure that the security infrastructure at the offshore location adequately meets your needs.

Does the offshore vendor have a regional presence in the country where you are located?

It is good if the company has a regional presence but not necessary requirement. With the high level Internet and Telecommunication technologies available, it is possible to establish a relationship with the offshore vendor without them having any regional presence.

Step 3: Pilot Project with Offshore Vendors, you may choose not to do a pilot

You can narrow down to one or two offshore vendors for the pilot project. The main purpose of the pilot is to find answers to following questions: -

How well they have completed your work based on the instructions you provided to them? Have clear success criteria been mapped out and adhered to.

Does the offshore vendor have a cultural fit to operate with your own internal employees?

Often times there will be a cultural mismatch between your employees and the offshore team. Find out how both the groups work in solving the problems that arise during the course of the pilot project. Particularly you need to focus on how the offshore vendor communicates with your team, problem escalation, offshore employee's work schedule etc.

What pricing models do the offshore vendors offer?

Pricing is another key factor for companies to offshore their accounting processes, but it shouldn't be the only criterion for you to consider. Generally there are two pricing models offshore vendors offer, hourly rate or a monthly rate for an offshore employee. Based on your individual requirements you need to find out which will be most beneficial for you.

Step 4: Finalising and Contract negotiation with the Offshore Provider

Identify one offshore vendor to outsource your accounting work. In this step you need to start the contract negotiation with the offshore vendor. Try to keep it simple, however there are several legal and contractual issues that must be identified in this step, and it is good to have a solicitor/lawyer look into to the legal issues such as confidentiality, dispute resolution etc etc. But there are several non-legal issues you need to identify before the contract negotiations begin with the offshore vendor.

How long the contract needs to run?

You need to determine how long you need to create a contract with the offshore provider. Some times it makes

sense to have a month-to-month contract and in some conditions it is good to have a long-term contract with the offshore provider, keep in mind termination clauses.

What type of outsource pricing model will be most cost effective?

You need to choose the best pricing model that is suitable for your work, the period of the contract and the price will go together. So you need to determine an optimal contract length and price for your accounting work.

How long the offshore vendor needs to provide the service after the end of the contract?

If your offshore vendor does not agree to continue the contract, it will take time for you to find a new offshore vendor or to have your own employees to do the work, so you need to cautiously plan and write the contingency in the contract.

How the offshore vendors will maintain the quality of their work?

It is a good idea to explicitly specify how you will measure the quality of work delivered by the offshore vendor and what course of actions the offshore vendor will take in case it does not meet your expectations.

How the security risks are addressed in the contract?

As mentioned earlier security paramount in financial and account offshoring, to safeguard your data, you need to assess the points of potential risk in sending the work to the offshore vendor and to structure the issues in the contract. This might be as simple as having a clause in the contract that tells the offshore vendor to use secure software to transfer all the critical data.

Misconceptions

A common misconception with the outsourced concept is that it simply revolves around having a client's basic bookkeeping work done in a lower cost part of the world and that everything else around the client engagement remains the same. This is simply not the case and also partly explains why a number of people who have set about outsourcing have been disappointed with the experience. In essence outsourcing is simply about optimising the application of human resources in managing your clients' businesses. In this regard it absolutely is not just about stripping out cost and transferring it to a cheaper location abroad. In fact, if you look at our sample model you will see that the number of Manager and Senior days spent in handling clients can actually rise in an outsourced model, reflecting the shift to higher value add advice for the client.



intelligent accounting online

How accountsIQ can help with Offshoring projects

The software can be accessed at anytime from anywhere by any computer that has a broadband Internet connection and the user knows the passwords to access the relevant accounts.

There are no infrastructure requirements (in other words you do not need a server in the office to run the software, or backup devices to save the data).

All updates to the software are automatically made and so there is no requirement to load updates and enhancements onto computers that are using accountsIQ.

Both of the points immediately above mean that the requirement for IT staff to do this work is eliminated.

You and your clients can look at and work on the same data at the same time without having to send any information backwards and forwards between each other.

You have the ability to track the number of invoices, transactions and time spent on all clients if you choose to use accountsIQ for your offshoring SaaS partner.