Outsourcing and the Strategic CFO

How Midsize-Company CFOs are Using Outsourcing to Become More Strategic

An Executive White Paper Written by
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Executive Summary

In a survey of midsize-company CFOs conducted specifically for this paper, we found that 93 percent are under pressure to become more strategic.

In today's challenging business climate every organization needs to get more out of the resources at its disposal. Nowhere is this more true than in the CFO's office. CFOs have an enormous reservoir of financial expertise that, when strategically leveraged, can propel the company forward.

Recognizing this, for many years CFOs in large companies have been taking on a more strategic role. But, what about CFOs in midsize-companies? In a survey of midsize-company CFOs conducted specifically for this paper, we found that 93 percent are under this same pressure to become more strategic. However, strategic activities receive only 22 percent of their time, less than any other part of their jobs. Worse yet, only about half have specific programs underway to help them become more strategic.

We believe that one way for midsize-company CFOs to become more strategic is through outsourcing finance and accounting.

We believe that one way for midsize-company CFOs to become more strategic is through outsourcing finance and accounting. By bringing in an outside partner who can assume much of the day-to-day responsibilities, CFOs can free significant amounts of their time.

Historical views of outsourcing have presented barriers to its success. CFOs fear the loss of control. They are concerned about the confidentiality and security of their company's information. They're uncertain that providers with the requisite experience exist. They worry about the impact on their people. However, each and every one of these concerns can become a positive with the right planning and execution. Well-structured and measured outsourcing contracts actually increase CFOs' control. Seasoned providers add to the security and confidentiality of data. Employees often have better career opportunities with a finance and accounting outsourcing provider than they have working in an internal finance department.

Confident and forward-looking CFOs are increasingly embracing outsourcing as a way to become more strategic. In so doing, they are enhancing not only the performance of their companies, but their own careers, as well.

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The Strategic CFO

For the past few years, major business publications and advisors alike have been chronicling a new breed of CFO. *Fortune Magazine* has dubbed them the *Super CFO*; *CFO Magazine* has called them the field's new *pioneers*; PricewaterhouseCoopers says they are the "architects of the corporation's future." Most commonly, this new CFO has become known as the *Strategic CFO.*

93 PERCENT OF MIDSIZE-COMPANY CFOS ARE UNDER INCREASED PRESSURE TO BECOME MORE STRATEGIC.

THE PRESSURE IS COMING PRIMARILY FROM THEIR BOSS – THE CEO (36 PERCENT) AND OTHER SENIOR EXECUTIVES (24 PERCENT).

Regardless of the name or hyperbole that is used, the underlying message is clear: Today's big-company CFOs increasingly play a pivotal role in their company's most important decision making and business plan execution. More important, where CFOs have assumed this role their companies have generally been more successful. Consider the following excerpts from some of industry's most highly respected sources:

- A study of large company CFOs found that when a company's stock was outperforming the competition, the CFO was likely to be spending more than 20 percent of his/her time with business unit executives, making decision support the top priority. (*CFO 2000: The Global CFO as Strategic Business Partner*, The Conference Board, 1997)

- At 'Top Quartile' finance departments, 40 percent more of the CFO's and staff's time was devoted to decision support. (*21st Century Finance*, Answerthink's Hackett Benchmarking and Research, 2001)

- Super CFOs "shape strategy, earn millions – and can be worth billions to a company and its shareholders." ("Super CFOs: They Can't Jump … But Some Earn More Than Deion Sanders", *Fortune Magazine*, Nov. 13, 1995)

What these CFOs are doing is using their deep financial expertise to create value for their companies. Far more than guardians of their company's financials and scorekeepers of its performance, they have become both shapers and leaders of their company's overall direction. They are defining and shaping business strategy, driving revenue growth, integrating mergers and acquisitions, managing shareholder value and relationships, and leading efforts to use technology to reengineer company-wide business processes.

Today's big-company CFOs increasingly play a pivotal role in their company's most important decision making and business plan execution.

This change has elevated many CFOs' standing within their companies. *Institutional Investor* says that 62.5 percent of CFOs believe that they are more likely today to be considered for promotion to CEO than they were five years ago. A 1998 Heidrick & Struggles survey found that one third of CEOs agree—stating that their CFOs would be considered for the CEO position if they were to leave tomorrow—and 91 percent of these CEOs view their CFOs as 'strategic business partners.'

The era of the Strategic CFO has arrived and it is proving to be good news, both for these professionals and for the companies they serve. However, do these same benefits extend to midsize-companies and their CFOs, as well?

To help answer this question, in December 2001, Geller & Company and Michael F. Corbett & Associates gathered the opinions of CFOs from 42 midsize-companies across the U.S. These companies ranged in size from $20 million to $500 million in annual revenue and from 100 to 5,000 employees. The average company had $265 million in revenue and 1,553 employees.

Fifty-seven percent were privately held; 43 percent publicly traded.

The average midsize-company CFO's budget was $4.5 million, about 1.7 percent of the company's revenue. The staff in the CFO's office averaged 30—6 managers, 12 finance, accounting and tax professionals and 12 administrative and clerical people.

PERCENTAGE OF MIDSIZE-COMPANY CFOS HAVING LEAD RESPONSIBILITY FOR AT LEAST ONE OF THEIR COMPANY'S STRATEGIC INITIATIVES…79 PERCENT.

PERCENTAGE BY WHICH MIDSIZE-COMPANY CFOS WOULD LIKE TO INCREASE THE TIME SPENT ON STRATEGIC ACTIVITIES …45 PERCENT.

PERCENTAGE OF MIDSIZE-COMPANY CFOS WITH INITIATIVES UNDERWAY TO HELP THEM BECOME MORE STRATEGIC…52 PERCENT

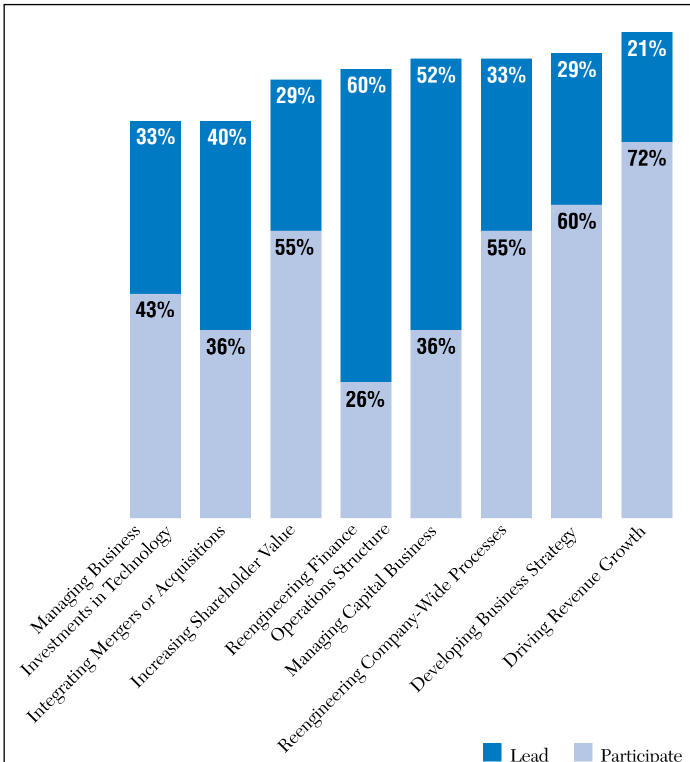
Were these midsize-company CFOs becoming strategic? Yes, and no. Seventy-nine percent stated that they had the lead responsibility for at least one strategic activity. And, 93 percent said that the pressure for them to become more strategic was increasing.

The midsize-company CFOs we studied assumed leadership roles mainly in activities closely related to their traditional responsibilities.

On the other hand, we found important differences in the level of strategic involvement for midsize-company CFOs versus that of large-company CFOs. The midsize-company CFOs we studied assumed leadership roles mainly in activities closely related to their traditional responsibilities. In the other strategic activities such as reengineering company-wide business processes, increasing shareholder value, developing business strategy, and driving revenue growth, they were more likely to be participants than leaders.

In comparison, a 1997 Conference Board survey of large global corporations found that 75 percent of large-company CFOs led their company's strategic/shareholder value initiatives (as opposed to less than one-third for these midsize-company CFOs). The same Conference Board study also found that almost 60 percent of these large-company CFOs led corporate-wide restructuring and cost reduction programs. These differences suggest that midsize-company CFOs are moving in the direction of becoming more strategic, but lag behind their large company counterparts.

Midsize-Company CFOs Involvement in Key Strategic Activities*

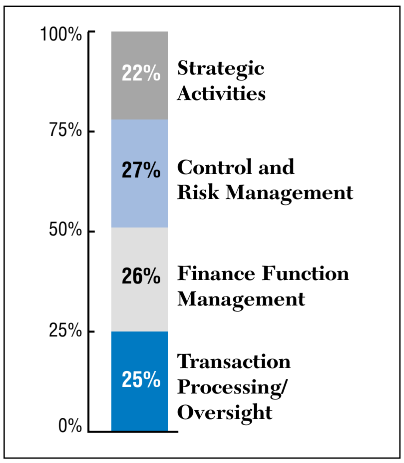


* Where percentages do not equal 100%, survey respondents also answered NA or Not Applicable.

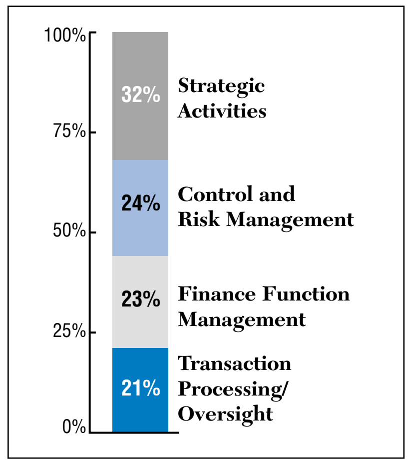
How do midsize-company CFOs spend their time? Survey respondents reported that they were spending 22 percent of their time on strategic activities, 27 percent on control and risk management activities, 26 percent on oversight of transaction processing, and 25 percent on managing the finance function. In other words, strategic activities were receiving the smallest portion of their time.

They also reported that they would like to increase the percentage of time spent on strategic activities from 22 percent to 32 percent—a 45 percent increase. They stated they would like to see this time come from all of the other areas, but particularly from oversight of transaction processing.

How Midsize-Company CFOs Spend Their Time



How Midsize-Company CFOs Would Like to Spend Their Time



Only about half of midsize-company CFOs had specific initiatives underway to help them become more strategic. Most of the initiatives focused on restructuring and improving the efficiency of the CFO's current operation—such things as the expanded use of technology, personal and staff professional development, and process and organizational redesign.

How Are Midsize-Company CFOs Becoming More Strategic?

• Expanded Use of Technology	86%
• Staff Professional Development	73%
• Process Redesign	55%
• Organizational Redesign	50%
• Personal Professional Development	45%
• Outsourcing	32%

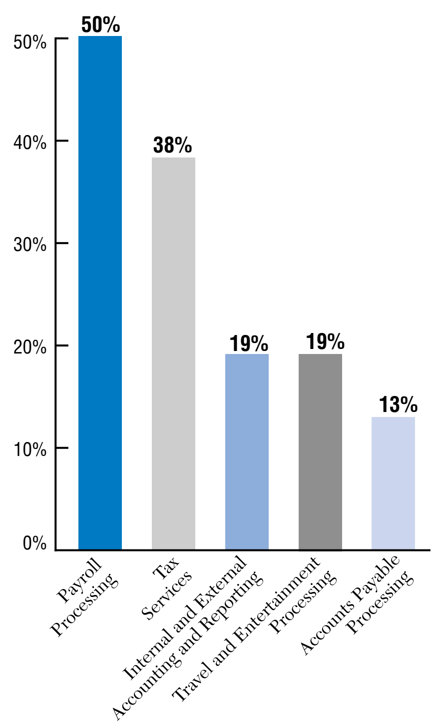
One third, however, pursued another, very different approach. These CFOs were bringing in outside resources to help. They were outsourcing. Seventeen percent of the average CFO's budget in the companies we studied was currently being spent on outsourcing, and was expected to increase up to 25 percent within two years. Additionally, 60 percent of these CFOs said that the importance of outsourcing in the finance and accounting function had increased over the past two years.

Outsourcing

"Do what you do best and outsource the rest," is a simple yet compelling quote attributed to management guru Tom Peters. Following this maxim, executives in organizations around the world are using outsourcing to lower costs and improve quality. More important, they are using outsourcing to transform their business operations, generate better customer solutions and create higher shareholder returns. The bottom line—in today's business world, it's difficult to imagine how any company could be successful relying solely on its own resources.

To be sure, outsourcing has been slow to come to the finance department, but now even that is changing. In addition to payroll, which is outsourced by half of all companies, more than one-third of companies currently outsource some or all of their tax work. Outsourcing is growing in other areas of the finance department as well, such as accounting and reporting, receivables and payables, and expense processing. While this still reflects a piecemeal approach, it does show a growing trend.

Top Outsourcing Areas Within the Finance Department



* Source: The Outsourcing Research Council

How Outsourcing Enables the Strategic CFO

As one industry expert put it, "Who wants to be doing things that the CEO doesn't care about?" We agree. This need for midsize-company CFOs to become more strategic is the single most compelling argument for the increased use of finance and accounting outsourcing.

There are essentially two ways that CFOs can free the time they need for more strategic activities. They can either make the investment internally to improve and streamline their existing operation (either on their own or by hiring a controller to help) or they can bring in an outside company to run the day-to-day, non-strategic parts of their department. That is, they can outsource. One is the traditional reengineering approach; the other, outsourcing, is the business tool of the 21st century.

The problem with the traditional reengineering approach, even with the help of a controller, is that as long as CFOs manage their own internal operations they are forced to take on not one, but two jobs: both that of customers and of suppliers.

As customers, they must define their business requirements, prioritize them, maintain all the needed interfaces with the rest of the business, communicate, monitor and, of course, pay for the services. As suppliers, they are also responsible for the delivery of that service. They are unavoidably drawn into the day-to-day problems that arise, must deal with acquiring and retaining the needed people and skills, and constantly must invest in efforts to redesign and enhance the underlying technologies and processes. Instead of using their financial expertise to move the business forward strategically, they spend their time operationally—dealing with today's problems and tomorrow's need for better performance. The addition of a controller may move this issue down one level, but doesn't truly free CFOs, nor does it make any better use of a skilled controller's time and talents.

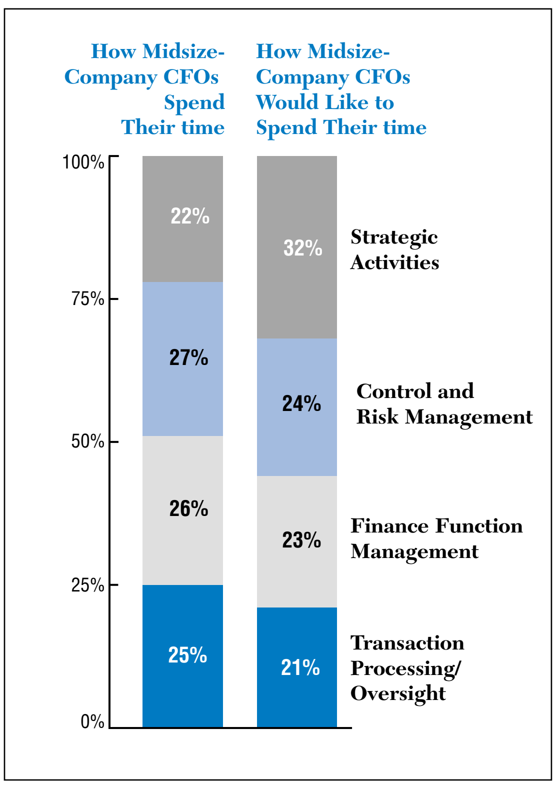
The internal investment approach also assumes that as the operation improves CFOs' 'suppliers roles' will require less time. That's seldom the case. CFOs are more likely to find that new requirements, expectations of continuous improvement, ever-changing techniques and technologies, and other factors make it impossible to ever finish the job. In the end, when CFOs choose this internal investment route, whether aided by a controller or not, they are headed down an unrewarding path. They may gain marginal improvement in the time required to oversee transaction processing, but they don't eliminate it.

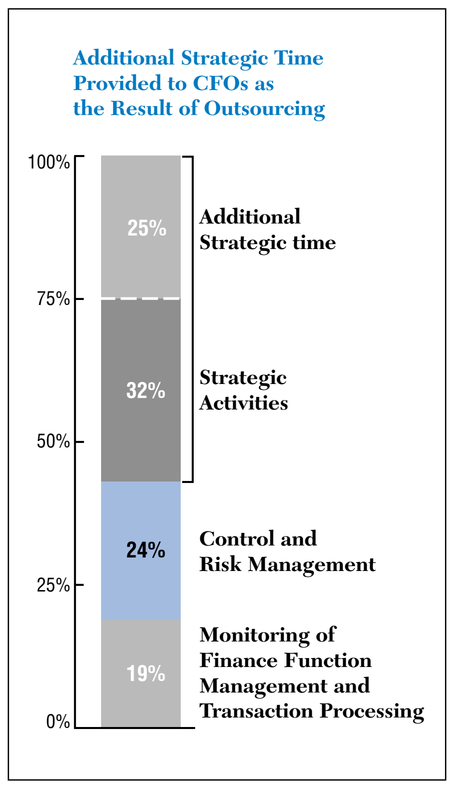
CFOs should pursue the internal investment and reengineering path only if the process being reengineered is truly the essential purpose of their company's business. Additionally, as one industry expert put it, "Midsize companies simply do not have the practical leverage to reach anything approaching industry best practices on their own."

Down the other path is outsourcing. When CFOs outsource, they ally with organizations dedicated to managing people, processes and technologies toward well defined, committed deliverables for their customers. The service provider takes on the responsibilities and risks for meeting its customer's requirements. As one experienced CFO told us, "Managing contracts is much more efficient and effective than managing employees; contracts are performance based." The interdependent nature of this new relationship allows CFOs to move sharply upward, toward their desired strategic roles, and away from the tactical, day-to-day duties that so often dominate their time. Specifically, finance and accounting outsourcing has the potential to quickly free significant portions of CFOs' time. As one said, "My role changed from focusing on hygiene to really working on the business."

Consider the CFOs from our study who reported that they spent 51 percent of their time managing the finance function and overseeing its transaction processing activities. If responsibility for transaction processing and finance function management were assumed by an outside specialist, how much of CFOs' time would be freed for more strategic activities? Perhaps 26 percent. As one industry expert put it, "Who wants to be doing stuff the CEO doesn't care about?" And, this change would take place in a matter of weeks or months, not at the end of a lengthy reengineering effort, which, while underway, would actually consume even more of CFOs' time.

Hypothetical Reallocation of a CFOs' Time Through Outsourcing





Barriers to Finance and Accounting Outsourcing

CFOs in our survey reported that they saw a number of barriers to outsourcing. At the top of their list were: security and confidentiality of information; inability to separate highly integrated work; a lack of successful examples at other companies like theirs; and the cost of outsourcing.

While the concerns that CFOs identified related to many of these issues are certainly real, the issues themselves are far more perception than reality. However, each of these barriers to outsourcing can not only be addressed, but turned into positives with appropriate planning and execution. And, as one expert put it, "CFOs who can't learn to become strategic partners to CEOs limit their potential."

Take the issue of the security and confidentiality of a company's financials, then consider that companies routinely outsource payroll—a set of data that is just as sensitive and just as subject to confidentiality concerns as any within the company. Are the security and confidentiality issues in regard to a company's financial data any greater than those concerning its personnel data? In fact, an outsourcer who is managing this data for multiple clients is investing in security and confidentiality controls well beyond that which any one of their clients is capable of doing on their own. The result—the company's data is likely to be more secure through outsourcing to a properly chosen partner.

Another concern is that a company's financial transaction processing is too integrated into the company's overall business operations to be handled by an outsider. The reality is that the addition, through finance and accounting outsourcing, of an outside expert to the CFOs' team can actually introduce industry best practices that help standardize and streamline these operations making them more predictable and reliable.

To some, successful examples of midsize-companies finance and accounting outsourcing appear hard to come by. This is more a reflection of the confidentiality in which these relationships are held than it is of examples not existing. Given the sensitivity of finance and accounting outsourcing, few cases make their way into the popular business press or onto the pages of reports such as this.

As for costs, few organizations truly understand the total costs of their current finance and accounting operations. This often makes outsourcing appear more expensive than it actually is. When the cost of capital associated with internal investments is considered, the real bottom line impact of outsourcing becomes even more attractive. Add to this, the positive business impact of a CFO with more free time to devote to strategic activities. Taking all of these factors into consideration, seldom do outsourced operations truly cost more than internal ones.

Barriers to outsourcing can not only be addressed, but turned into positives with appropriate planning and execution.

A final barrier that must be acknowledged is the CFO's own resistance to change. Most executives fear the loss of direct control over day-to-day operations—the sense of control that comes with the ability to own and direct those resources personally. However, as managers we must ask ourselves how our time best contributes to the business? At what cost are we achieving that sense of control? How does it really contribute to the bottom line? Are the unique ways we do things born out of necessity or of habit? When was the last time we tested our superiority at this activity against other companies and against the marketplace of service providers? Finally, ask yourself how the CEO would answer these same questions? How would you answer them, not as the CFO, but as the company's chief executive? If it were your company, how would you want your CFO to be spending his or her time?

A Recommended Approach

One approach we recommend CFOs' consider is best described as a purposeful, 'go slow, but go steady' strategy. This may mean beginning finance, accounting and tax outsourcing not by taking the work offsite, but by having the service provider come onsite to assume some or all of the operations—as they currently exist. Then, build the relationship with the service provider on a steady, results-based basis. The desired endpoint is a comprehensive relationship with a trusted partner for everything from transaction processing through closing the books to drafting management reports and external financial statements. As one CFO told us, "We started with tax, then, as the results came in, expanded outsourcing overtime to cover accounts payables and payroll, and then general accounting such as our ledger and financial statement preparation and issuance."

The long-term relationship, value-added nature of the specialized partner, and continuous improvement create the real business value.

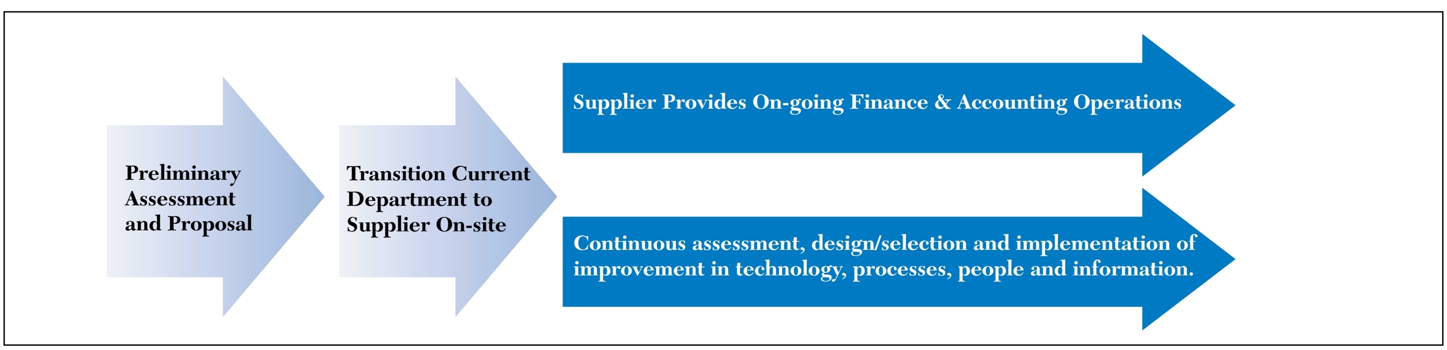
This approach provides an effective vehicle for controlled change. The provider initially performs the work onsite; then, through a well-defined plan, gradually reengineers and optimizes the operation. This approach also manages and reduces risks. If there is a need for the customer to reassert control, they are easily able to do so. Finally, security and integration concerns can be similarly dealt with in a staged manner.

The trade off may be that some cost savings have to be deferred—there are limits to the provider's ability to assume current operations on an as-is basis and at the same time deliver immediate savings. Given the investment the provider will be making upfront, simply holding the client's costs stable for a period of time is an appropriate goal. However, CFOs should immediately begin to see the benefits of improved process efficiencies and reduced time on their part attending to these activities. Over time, direct cost savings can be realized, as well.

Open book, or cost-plus pricing, can also be used to reassure CFOs that the price being paid is fair. Incentives and penalties can be used to ensure a focus on performance outcomes even where profit margins for the supplier may be initially fixed. Specific month-to-month goal setting can be used to ensure that progress toward the ultimate outcome is made. It's the long-term relationship, value-added nature of the specialized partner, and continuous improvement that create the real business value.

One final consideration, especially for midsize-company CFOs, is the impact of outsourcing on the people who work in the company. Midsize-companies typically develop a more personally connected culture than do larger companies. Often their success is based not on systems and standard processes, but on the personal relationships between managers and peers. This makes change, especially a change like outsourcing, that much more challenging. For this reason, it's particularly important that change-related issues be addressed up-front, and for managers to work through them in a very personal way with their employees.

Outsourcing a Midsize-Company's Finance & Accounting



The go slow, but go steady approach helps with these people issues. It provides an opportunity to migrate operations in a way that balances all of the competing interests. However, care must be taken to clearly redefine roles for both employees and managers, as the relationship progresses. Failure to do so undermines the entire change process.

There are times when outsourcing can and should be implemented much more aggressively. When companies are merging or acquiring, when they are under severe financial pressure, in advance of a major strategic initiative, when the company is relocating its operations or undergoing major staff changes, or when there is a satisfactory existing relationship with a supplier whose work can be expanded—these are all situations where a more direct approach to outsourcing is advantageous. The provider's capabilities and resources can be of tremendous value in achieving the needed goals quickly, especially when a trusted relationship already exists between the companies.

Outsourcing helps CFOs create more value for their companies and, just as important, more career opportunities for themselves.

Midsize-company CFOs recognize the need to become more strategic. The challenges they face in making this transition are significant. The approach we recommend is for the CFO to define the desired endpoint and then bring in a partner to help reach it. Outsourcing can be used to progress slowly but steadily down a path that relieves CFOs of the burden of managing each and every aspect of their day-to-day operation. In so doing, they will create more value for their companies and, just as important, more career opportunities for themselves.

The era of the strategic CFO has clearly arrived; the challenge many midsize-company CFOs face is how best to become that true strategic partner their boss—the CEO—is looking for. We believe that outsourcing can play an important role.

About the Survey

In December 2001, Geller & Company and Michael F. Corbett & Associates, Ltd. conducted an online survey of midsize-company CFOs to capture their views on the issues discussed in this white paper. Survey recipients were midsize-company CFOs from Michael F. Corbett & Associates industry database as well as from selected third-party sources. In appreciation for their participation, survey recipients received a copy of the results as well as a small honorarium. Only respondents with lead financial management responsibility for U.S. based companies with from $20 million to $500 million in revenue or from 100 to 5,000 employees were included in the reported results.

If you would like to discuss these findings further, please contact Geller & Company, 800 Third Avenue, New York, NY 10022, at www.gellerco.com.

About Geller & Company

Ron Stratton is a recognized authority on finance and accounting outsourcing. One of the founders of the Business Process Outsourcing practice of Arthur Andersen, Ron has served as an advisor to Chairmen and CEOs of multi-billion dollar publicly and privately held companies. Today, he provides strategic and operational direction to the clients of Geller & Company in successfully implementing finance and accounting outsourcing.

Geller & Company (formerly Martin Geller CPA) is the premier, comprehensive resource for finance, accounting, and tax services provided on an outsourcing basis. Through proprietary processes and products, the firm provides CEOs and CFOs with the financial information needed to manage and grow their businesses.

Founded in 1984, Geller & Company's mission is to add value to the businesses and management it serves. Offering a wide range of financial/accounting/tax/business advisory/and systems services via outsourcing, Geller & Company provides clients with access to a wealth of intellectual capital. From strategy to execution, Geller & Company has amassed the resources and developed the methodologies to meet the needs of businesses across the country and around the globe.

Presently employing in excess of 200 people, Geller & Company helps businesses—from start-up to Fortune 1000—realize the benefits of improved performance and service levels, cost optimization and predictability, continuously updated technology, and the flexibility and scalability to react to growth.

About Michael F. Corbett

Michael F. Corbett is an internationally recognized consultant, author and lecturer on outsourcing. He is President of Michael F. Corbett & Associates, Ltd.

Annually, his company produces and Mr. Corbett chairs *The Outsourcing World Summit ~ Conference & Exposition*—the industry's premier gathering of leading practitioners and thinkers. In 1997, Mr. Corbett founded *The Outsourcing Research Council*, the top senior executive consortium for innovative thinking and knowledge sharing on the topic of outsourcing.

Firmbuilder.com, the company's online outsourcing information portal, was launched in May 2000 and quickly became the 'go to' resource for outsourcing. There are now more than 13,000 registered users of the site from all around the world.

Mr. Corbett has authored ten special reports on outsourcing for Fortune Magazine. He is routinely sought as a lecturer and speaker. In 1996, Mr. Corbett appeared as an expert witness on outsourcing at hearings called by then President Bill Clinton and more recently testified before the Office of Management and Budget's Commercial Activities Panel, tasked with reshaping the Federal government's sourcing approach.