Finance and accounting outsourcing is a growing trend among middle market and high-growth companies, providing a cost-effective way for organizations to improve the finance and accounting function. The key benefits of outsourcing include fractional use of finance and accounting professionals, enhanced processes and technologies, and stronger compliance measures. Outsourcing enables organizations to scale resources up and down as needed with no obligation to pay salaries or benefit costs. Additionally, it alleviates the burden of hiring, training and maintaining accounting staff.

Organizations can take advantage of advanced technology
platforms to gain real-time visibility into their businesses. However, with all the benefits outsourcing has to offer, there can also still be significant value in maintaining certain functions in-house, depending on what the company believes is its competitive advantage. Strategy, size, complexity, industry and uniqueness are all contributing factors in determining whether outsourcing is a strategic fit for a particular organization.

Moreover, since outsourcing comes in many shapes and sizes, organizations often struggle not only with the decision to outsource, but which capabilities should be outsourced. Organizations should, however, at least consider components of outsourcing as they continue to improve their organizational structure, business processes and technology infrastructure to determine what is right for them on their strategic road map.

**Evolution of finance and accounting outsourcing**

Historically, small and midsized businesses feared losing control over their financial processes and often chose to keep their finance function in-house, citing a desire to maintain a hands-on relationship with clients and vendors. Over time, outsourcing has gained traction, starting first with the outsourcing of highly transactional processes and shifting toward outsourcing of higher-level strategic functions. This is primarily due to a mindset shift from merely outsourcing small finance functions to integrating outsourcing as a key component of business strategy.

Growth is projected to continue, with outsourcing expecting to rise at an annual compounded growth rate of 8 percent through 2017.1 Furthermore, since 2014 alone, the global outsourcing market rose from $82.9 billion to $104.6 billion, representing a 26 percent increase from 2013.2

To understand the shift from transaction outsourcing to more strategic outsourcing, it is important to review the evolution of finance and accounting outsourcing. Accounts receivable was the first business process outsourced and continues to dominate outsourced activities.3 Accounts receivable outsourcing allows for faster collections and transparent cash reconciliation, and for the finance and accounting functions to focus on more strategic aspects of the business.

Bookkeeping was also one of the initial processes to be outsourced, reducing finance and accounting general and administrative costs that do not add value to the business. The strategy helps ensure a quick, streamlined and accurate close process from experienced resources with little to no down time.

Outsourcing also provides real-time management reports and enhanced workflow.

Outsourcing of accounts payable and payroll has been slower to mature, as organizations have desired to maintain control over cash. However, companies are realizing that the accounts payable process is faster in an outsourcing arrangement, ensuring that vendors get paid on-time and within contract terms.

Additionally, payroll outsourcing has become a more popular way to quickly and accurately coordinate paycheck delivery, authorize direct deposits, initiate tax filings, and process new hire paperwork and salary increases. Many of these functions, through enhanced technology platforms and fractional resources, have become commoditized for the small and midsized business market and allows companies to focus more on their business strategy and operations.

Lastly, small and midsized businesses are beginning to outsource more strategic functions such as budgeting, forecasting and procurement. This shift is largely due to processes becoming more standardized and repeatable. Budgeting and forecasting have become a natural addition to outsourced accounting, since the finance and accounting outsourcing provider has the client’s historical data to use for projections. The outsourcing model allows for organizations to leverage skills and expertise as needed.

**Hiring challenges in finance and accounting**

In addition to the overall benefits, one critical factor influencing the rise in outsourcing is the decrease in accountants entering the workforce. Due to the limited supply, small and midsized businesses are having a difficult time finding and retaining qualified personnel, which is driving companies to seek more reliable and flexible resources through outsourcing. Outsourcing removes the barriers to hiring, training and maintaining the right personnel, especially in a market where there is a dearth of talent, and employee retention is extremely competitive.

To illustrate this point, 68 percent of CFOs surveyed recently said it is challenging to find skilled candidates for professional-level positions such as corporate and public accounting, finance, banking and financial services.4 In addition, demand for technology experience is surging, as finance moves from a reporting focus to an analytics focus.

Overall, turnover of finance and accounting personnel carries a significant time expense. From the financial perspective, turnover results in unplanned termination costs, recruiting costs and costs related to training new employees which studies have shown to be as high as 60 percent of the previous employee’s salary. Outside of financial expenses, internal resources also expend a significant amount of time training and integrating new employees into the organizational culture, and often need to recreate any institutional knowledge lost in the transition.


Adding up total replacement costs, including lost production of current employees that must shift focus from their daily duties to training and integrating new employees, overall costs can range from 90–200 percent of an employee’s annual salary.5

In comparison, finance and accounting outsourcing ensures that companies have on-demand, reliable personnel, without the inherent time and financial costs from the traditional hiring cycle. Hiring a firm that provides outsourcing as a core service allows for redundancy in job functions and well-documented processes.

**Leveraging emerging technology**

One of the benefits that comes with selecting a quality finance and accounting outsourcing provider is the ability for clients to take advantage of emerging technology platforms. Cloud solutions such as NetSuite and Intacct, as well as comprehensive solutions with full integral capabilities provide enhanced reporting, workflow and stronger controls for organizations.

In particular, finance and accounting outsourcing takes advantage of the emergence of the cloud and often leverages cloud solutions in lieu of the traditional on-premise solutions. Cloud platforms help enhance process efficiency, financial transparency and dashboard reporting. Cloud software also provides mobility, enabling companies to manage accounting processes from any Web-enabled device or personal computer. These solutions are also often highly flexible and scalable and allow for easy growth through mergers and acquisitions, as the migration process is much more agile than with on-premise solutions.

Lastly, cloud solutions are built upon modern facilities that are hosted in a secure environment, have built-in disaster recovery capabilities, and deliver seamless software releases and upgrades. Moreover, outsourcing providers that also have technology consulting capabilities not only focus on current trends, but continually monitor emerging technology in order to keep their platforms current with advances in technology.

**Cost savings through outsourcing**

In a competitive business environment, all organizations strive to cut costs while not sacrificing effectiveness. A key benefit of outsourcing the finance and accounting functions is potential software and personnel cost savings compared to insourcing. Research from APQC’s Open Standards Benchmarking Collaborative found that when three or more functions are outsourced, average costs of finance as a percent of revenue are only a quarter of those same costs without outsourcing.6

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