

Thought Paper



Financial Planning and Analysis Outsourcing

An Imperative for non-linear benefits

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By offshoring Finance and Accounting functions that are further up the value chain, companies can tap benefits that are business transformational

First of the top five trends in outsourcing identified by CFO Magazine, Jan 2008.

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Globalization, and its attendant pressures on companies, requires today's finance departments to grapple with multi-currency transactions, multi-country regulations, as well as a range of legalities and global statutory compliances that have cropped up in the post Enron/WorldComm scandals era.

What's more, with the economies and financial systems of different nations becoming more and more integrated, ripple effects travel faster across multiple geographies - last year's sub-prime fiasco in the US and its aftermath being the case in point. A year later, the effects of the US crisis are continuing to severely impact financial markets of almost every country around the world. With the environment getting tougher on one hand and increasing pressure of shareholder expectation on the other, the finance function finds itself in an unenviable position.

At an organizational level, there is pressure on management to increase productivity, efficiency and sustain performance irrespective of the external context. How they respond to this difficult challenge will determine the winners from the also-rans.

CFO: Now 'centre forward'

With mounting environmental uncertainties, the role of the Chief Financial Officer (CFO) and the Financial Planning and Analysis (FP&A) function becomes even more critical - both from the point of planning future strategy as well responding to developments in the business universe. Today's CFO must increasingly play a strategic, rather than supporting, role in driving a business forward.

Recent researches on the evolution of the CFO's role highlighted that a high percentage of CFOs will accord more importance to strategic business issues and play the role of a business catalyst over the next 18 months.

Needed: An information infrastructure that can keep up, or even be ahead of the business

The agility with which the finance team responds to pressures in the business environment could make all the difference in creating the much-needed competitive edge for a business. However, not all CFOs are fully equipped with the tools needed to rise up to the new demands made on them. CFOs typically face challenges in the areas of information delivery, financial reporting and analysis, issues that have been flagged in several research reports and articles discussing challenges faced by today's CFO.

Some of the key problem areas identified:

- Scarcity of the necessary information to make forward-looking decisions
- Lack of ad-hoc and analytical capability needed by finance and business unit end-users to perform complex analysis
- Difficulty involved in utilizing currently available data (data is often poorly formatted, there is too much of uncritical data, it is fragmented and spread over various processes to be of much use)
- Absence of best practices for utilizing limited resources to deliver today's complex analyses

The good news is that, thanks to extensive investments in information technology over the past few decades, most companies already have a lot of the data required to make their decisions. To ensure that the raw data is actually converted into decision support intelligence, at hand are vendors offering to outsource FP&A activities.

Outsourcing FP&A: Now a reality

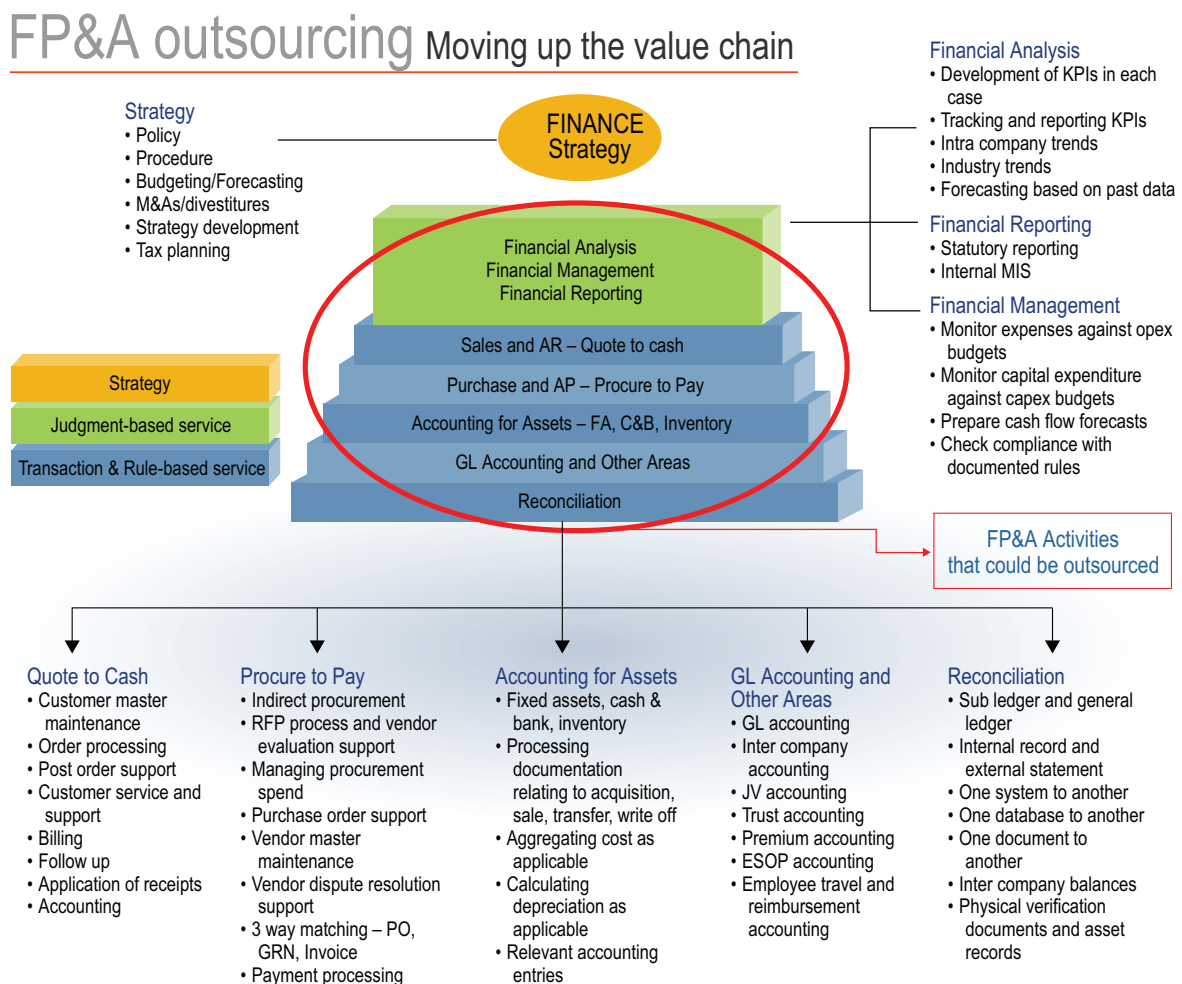
In the past, companies have hesitated to outsource the FP&A function because of multiple issues.

First, FP&A is complex as it is a domain intensive “finger and toes” world and calls for higher order skills. The boundaries of the FP&A function are also not easy to draw. It is usually not handled by a dedicated team, but is embedded across the organization. There is a great deal of ad hoc-ism and subjectivity. All of this makes it a difficult area to baseline. In addition, intangible knowledge vested with individuals, lack of documentation and the risk of losing that undocumented knowledge during transition are other reasons for companies’ reluctance to outsource.

Today, the outsourcing industry has begun developing specialized competencies in FP&A and has also addressed the hand over challenges by developing robust transition models. This means that organizations can actually realize the non linear benefits which thus far remained a hypothetical possibility.

Multi-pronged benefits from FP&A outsourcing

The potential gains from outsourcing FP&A activities are significant. These include traditional outsourcing benefits around scalability, agility, flexibility and cost advantage, topped up by true transformational benefits



As a starting point, documentation of process knowledge residing with the knowledge workers is an important step towards bringing complete visibility into the complex actor- activity relationship involved in FP&A. In fact, proper documentation is the foundation upon which the future transformation potential of the entire engagement hinges. Across the board, documentation brings to fore the applications leveraged for conducting FP&A work, highlights some common processes / activities while also providing visibility into metrics such as calendar of reports & analysis, turnaround time, frequency of reports, key stakeholders that receive the reports and the business purpose for which different reports are generated.

Thereafter, once transition is completed and a steady state is achieved, the first logical step is to standardize and enrich the look and feel of the reports. Next, an important step called “wheel alignment” can be implemented, which leads to a salient outcome of this transformation journey, namely, rationalization of reports. More often than not, organizations continue to generate a large number of reports that may have lost their relevance over time. Elimination of irrelevant reports reduces clutter and increases productivity, besides enabling firms to achieve the Holy Grail called the “single version of truth”.

Automation is the logical next step. Automation ranges from small macros for pulling and auto-populating data to larger initiatives around legacy modernization and application rationalization. This is the inflexion point for the transformation to really take wings. Fragmented, broken and legacy application infrastructure acts as a huge bottleneck towards implementing best in class reporting and compliance processes. [If the outsourcing vendor also manages the IT landscape, the whole initiative of legacy modernization and application rationalization can happen in a truly integrated IT-BPO methodology, thus ensuring that there is no slip up in the operations accuracy and rigor.](#) Automation also entails workflow tools, configuration management tools, document management tools and knowledge management that enable greater transparency and visibility into the operations.

All the above result in faster turnarounds for reports and greater productivity; teams are then able to churn out reports more frequently, as well as accommodate non-routine reports urgently required by business, thus providing a fillip to the freshness quotient of reporting - so very important, yet missing, in the current FP&A world.

In a nutshell, the process of implementing FP&A outsourcing involves complete re-engineering, with systematic and clear definition of processes and the deployment of a common framework solution-action that results in greater integration of operations and easier knowledge sharing. All of this brings down the company's dependence on individuals over time. Lending more structure to processes and standardizing them across the enterprise also helps cut costs and improve margins, either directly or indirectly. An outsourcing partner also brings the added advantage of skilled human resources with relevant domain knowledge and a wide experience of working in different industries, invaluable in an era of rising labor costs and lack of qualified people.

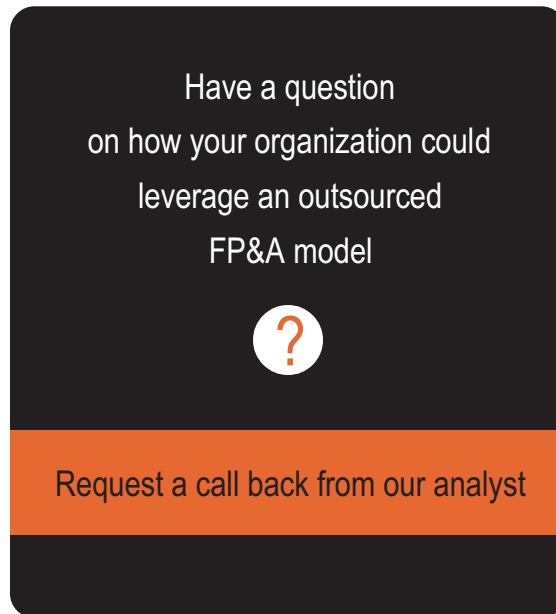
What follows is perhaps the most important end goal in this transformational journey - monetizing data for business insights, strategy formulation and implementation. [Data assets used for reporting can be leveraged for providing analytical models that provides a huge competitive edge to clients.](#) Analytics can lead to better understanding inventory, customers, operations, risks etc. and can have a significant impact on the top line, bottom-line or even business structure of the firm.

This can enable and empower CFO's to provide powerful business insights and strategic direction to the boardroom, hitherto a privileged bastion of the sales and marketing chiefs.

It is owing to the potential of such high impact, non-linear benefits that the spotlight is now on the FP&A outsourcing industry.

Considerations for a successful FP&A transition

The success of FP&A outsourcing hinges largely on transition, given the inherent complexities. The transition framework therefore needs to marry traditional “Risk-Fit” analysis with a decoupling analysis that grades people and processes according to their suitability for de-skilling.



Transitions here are also less wholesale - instead of replacing local teams with outsourced teams, a combination approach is needed where local team leads (either of the company or the vendor) lead an extended global team that works collaboratively.

Another possibility is a peer-to-peer model of transition. Not surprisingly, a successful FP&A transition also calls for a cautious approach that should ideally involve a pilot (taking up one team or one simple process across several organizations) as well as parallel runs before moving into steady state.

FP&A Outsourcing

Conclusion

In conclusion, outsourcing FP&A work to the right partner can change the trajectory of an organization's business strategy and place it on the road to success. Admittedly, it is a more complex process; however, this should not be a deterrent for progressive organizations that aim to stay ahead of the curve.

About the Authors

Rahul Shah, AVP, has over 15 years of outsourcing, consulting and business management experience across wide variety of domains including energy and commodity trading and risk management, Knowledge Process Outsourcing and Financial Planning & Analysis Outsourcing. He currently heads Financial Planning & Analysis Practice in Infosys Knowledge Services.

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