Chapter X

Outsourcing and Offshoring of Finance Activities

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Abstract

This chapter reviews the outsourcing and offshoring of finance activities and the socioeconomic implications for home and host countries. Part one provides an overview of the hierarchy of finance activities in the firm and the phenomenon of outsourcing and offshoring of these activities. The phenomenon is then examined from a firm perspective, highlighting the major drivers, trends and issues using theoretical frameworks and case examples from the author’s in-depth interviews with 37 managers at 25 multinational firms. Finally, the socioeconomic issues and implications of offshoring activities are discussed in the context of both home and host countries.

Introduction

Globalisation, technology, regulation changes, stakeholder pressures, and firm re-organisations present challenges and opportunities to firm finance functions to improve their contributions to the business. One of these opportunities is the outsourcing and offshoring of finance services. Finance services comprise 10% of the nearly $250 billion
worldwide business process outsourcing (BPO) market (Gartner, 2003) and the total number of finance service outsourcing is expected to increase 71% over the next few years (Accenture & EIU, 2004). Firms also offshore these finance activities. A survey of 275 finance executives revealed that 21% send finance and accounting activities offshore (CFO Magazine, 2003). Finance services offshoring is more commonplace among firms based in the U.S. and Europe than those in Asia Pacific. The offshoring of finance activities has important socioeconomic implications for both the home and host countries.

The chapter begins with an introduction to finance activities in the firm. The phenomenon of outsourcing and offshoring of these finance activities is reviewed, paying special attention to the drivers, costs and benefits of outsourcing and offshoring from the firm’s perspective. We then review a framework for evaluating location choice based on the author’s semi-structured, in-depth interviews with 37 managers at 25 U.S. and European headquartered multinational firms. This research was undertaken jointly by the author, Anne Evison, Julian Birkinshaw and Roy Barden in 2003 and 2004. The managers were identified through the researchers’ personal contacts. Respondents’ job titles were CEO (2), Finance Director (6), Head of Shared Services (12), Outsource Service Provider (2), Change Director (4) and Other (6). Five customers of shared service operations were also interviewed. The chapter then examines finance services offshoring from the perspective of both the home and host country, exploring the socioeconomic issues. Special attention is paid to two countries with deep involvement in sending and receiving activities abroad: the U.S. and India. The discussion of socioeconomic issues facing home and host countries is based on the expert interviews detailed above, as well as a review of recent government reports, academic research and case studies.

**Finance Activities in the Firm**

Finance activities can be seen in terms of a hierarchy of value-added inside the firm. At the top of the hierarchy are strategic finance decisions such as corporate risk management, budgeting and forecasting. The next level includes business partnering activities,

*Figure 1. Finance activities in the firm*
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