



Offshoring: Impact on the accounting profession

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First published 2010
CPA Australia Ltd
ACN 008 392 452
Level 20, 28 Freshwater Place
Southbank VIC 3006
ISBN 978-1-921742-04-0

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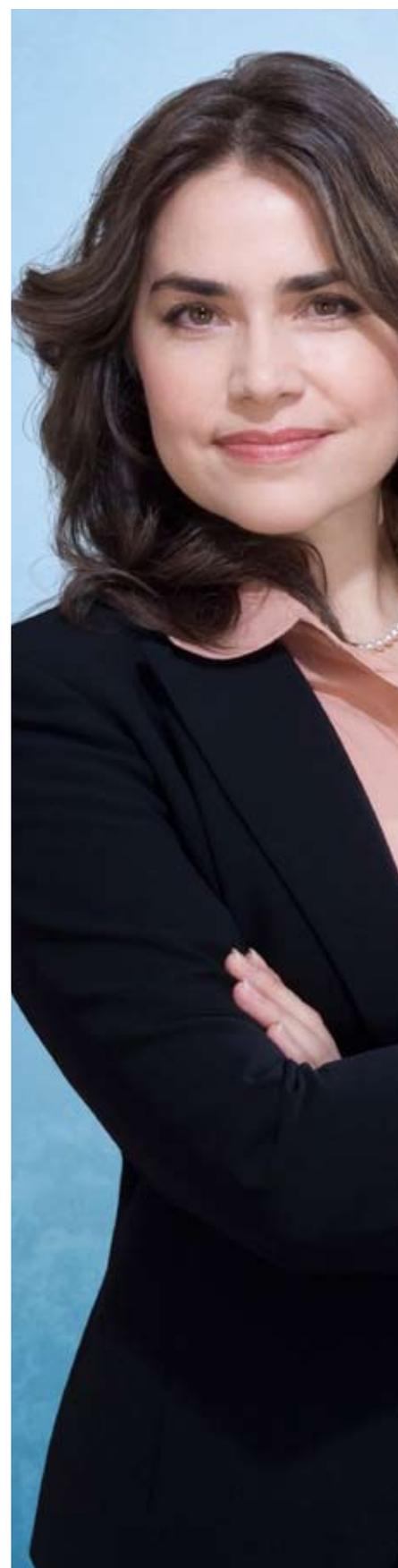
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Acknowledgments: I am grateful to Gavan Ord and his team at CPA Australia for their support and feedback.
 Thank you to the CPA members who completed the survey and participated in the round-table discussion.

Executive summary

In Australia the offshoring of firm activities, particularly related to finance and accounting functions, is a critical and sensitive issue for a wide spectrum of stakeholders, including governments, industry and professional bodies, employees, large publicly traded firms, small and medium-sized enterprises (SMEs), the media, academics and economists (e.g. Australia Financial Centre Forum, 2010; Foo, 2010; O'Connor, 2010; Sabbatis, 2006). As accountants play an important role as 'guideposts' for managers of firms of all sizes, it is critical for accountants to understand the role of offshoring as a business strategy in terms of the size of the phenomenon, definitions, processes, business models, drivers, pros, cons, and implementation suggestions.

Offshore outsourcing of finance and accounting services alone comprises 10 per cent of the approximately US\$975 billion global business-process outsourcing (BPO) market, and the total number of finance and accounting services outsourced is expected to increase approximately 70 per cent over the next few years (GIA, 2008).

This report is based on primary and secondary data from a variety of sources. A survey of 227 CPA Australia members was conducted in June 2009; the survey was followed up with a round-table discussion in October 2009, organised jointly by CPA Australia and Resources Global Professionals. Secondary sources include analyst reports, white papers, government reports, Australian Bureau of Statistics data, academic publications, popular business press and responses to offshoring by governments and industry bodies in Australia and the rest of the world.

This report comprises five parts:

1. Introduction to offshoring
2. Offshoring of finance and accounting activities
3. Offshoring by Australian firms
4. Offshoring to Australia
5. Conclusion: Future of offshoring to and from Australia.

1. Introduction to offshoring

Globalisation, stakeholder pressures, firm re-organisation, and changes in the political and regulatory environment present challenges and opportunities to firm finance and accounting functions to improve their value-add contributions to the business. One such opportunity is the offshore outsourcing of finance and accounting services. The business process outsourcing (BPO) market has grown substantially over the last decade (Accenture & EIU, 2004) and is expected to continue to increase rapidly (CFO, 2004; DiGregorio et al, 2009).

Following definitions of outsourcing and offshoring, this section reviews offshoring as a business strategy. The next section explores the phenomenon with respect to finance and accounting activities in particular.

1.1 Definitions

'Back-office activities' are firm support activities that are not as customer-facing as other functions (e.g. finance and accounting activities such as payroll).

'Build Operate Transfer model' refers to the establishment by a firm of its own operations in an offshore location followed by the transfer to a local firm.

'Business-process outsourcing' (BPO) describes the management and optimisation of business functions that have a predefined set of performance metrics.

'Captive offshoring' is the establishment and retention by a firm of their own operations in an offshore location.

'Insourcing', **'re-insourcing'** or **'backsourcing'** have been used to describe the reversal of outsourcing, when firms take processes back in-house.

'Nearshoring' refers to outsourcing to a country that is geographically proximate, usually in the same region, such as Asia Pacific / Australia / New Zealand.

'Offshoring' generally refers specifically to outsourcing to areas that are geographically remote from the business.

'Outsourcing' is the management and / or daily execution of a business function by a third-party service provider. Firms have been encouraged to outsource non-critical areas of business in order to focus on core competences (Quinn et al, 1990). There are many different outsourcing models, including the outsourcing of activities to firms in foreign 'host country' locations, which is called 'offshoring', and is the focus of this report.

'Re-onshoring' describes the reversal of offshoring, back to home-country locations; jobs to which this phenomenon has been applied are termed 'boomerang jobs'.

'Shared service centres' (SSCs) centralise certain business processes (such as finance and accounting) in one location. Outsourced activities are sometimes conducted in a SSC, located onshore or offshore. A SSC can also be internal to a firm.

1.2 Offshoring

In the last five years, offshoring has shifted from being a niche strategy to a dominant one used by a number of firms. The extent of offshoring varies according to characteristics of the firm (e.g. the larger the organisation, the more likely the firm is to outsource; Carey et al, 2006), industry (e.g. banking and financial services see a high degree of offshored activities; DTT, 2005), and home country. Offshoring is typically motivated by a desire for cost savings, access to outside expertise, improved service, in-house focus on core business, and access to better technology (Conference Board, 2005).

1.3 Outsourcing before offshoring

It is important to note that outsourcing onshore (in the home country) often precedes outsourcing offshore (offshoring). A firm will often pursue a staged approach to outsourcing, beginning with the use of only local suppliers. A network of partners and

suppliers is then developed, which might include a variety of national partners and then offshore partners (Conference Board, 2005). Therefore, any exploration of offshoring must include a perspective on outsourcing.

Large Australian firms are more likely to offshore their outsourced activities than are their counterparts in the United States, Europe and Asia. According to Capgemini, 19 per cent of outsourcing undertaken by large Australian multinational corporations was sent offshore, compared with 14 per cent by their international cohorts (Australian, 2010). Capgemini Australia's business managing director, Deepak Nangia, shared, "*When technology outsourcing happens in Australia, the chance of it having an offshore element is much higher than overseas organizations*" (Australian, 2010). An earlier survey of 99 Australian Securities Exchange (ASX) listed companies found that 45.5 per cent outsource some or all of their audit function, and of that, 75 per cent outsource to their external auditor (Carey et al, 2006). The driving forces for internal-audit outsourcing are cost savings and technical competence of external providers (Carey et al, 2006).

The 2010 IBISWorld report on accounting services in Australia acknowledges (at page 4) that "*Outsourcing of accounting, IT, human resources, back-of-office functions, consultancy and advisory services by businesses and governments has had an effect on the demand for the services of this industry.*"

Other studies have explored the extent of outsourcing by small and medium-sized enterprises (SMEs), defined by the Australian Bureau of Statistics (ABS) as any business that employs between five and 200 employees. Carey et al (2006) report that 97 per cent of SMEs purchase advisory services from external accountants. The percentages of SMEs outsourcing particular activities are: accounting / financial statement preparation (80%), taxation (83%), audit and other assurance services (54%), business advice (67%), and other (9%). Business advice purchased externally includes planning and review of operations (38%), systems reviews (26%), corporate finance and related activities (58%), financial planning (60%), and other (10%) (Carey et al, 2006).

1.4 Value chain of firm activities

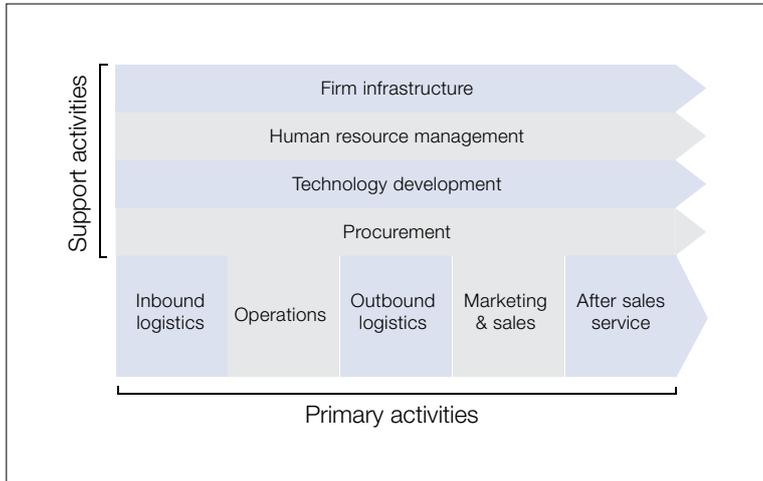
There are many firm activities that can be outsourced and offshored. There is evidence that firms that have successfully offshored one activity (for example, IT) are interested in exploring other activities in their portfolio, for example finance and accounting services (Accenture & EIU, 2004).

The 'value chain', as popularised by Michael Porter in his 1985 book, *The Competitive Advantage*, provides an excellent means of generating and analysing strategic alternatives, including the consideration of key activities to outsource and offshore. The basic model is shown in Figure 1.

There are five **primary activities** necessary in most business models to create a product, service or experience. These activities, which are common to all firms, include:

1. Inbound logistics: all activities involved in the acquisition and storage of raw materials necessary for the production of the firm's goods or services, including shipping, warehousing and inventory.
2. Operations: the actual creation of the product or service of the firm, including manufacturing, work-in-progress and machinery.
3. Outbound logistics: activities involved in getting the product or service to the final customer, including warehousing, shipping and stocking.
4. Marketing and sales: all activities involved in the sales promotion of the product or service, including advertising, direct sales and point-of-purchase displays.
5. Service: after-sales service, including warranties and service technicians.

Figure 1: Value chain analysis



Source: Huff et al, 2008

The four **support activities** listed at the top of Figure 1 help firms to undertake the primary activities. Support activities (including finance and accounting) have overhead costs that must be added to the cost of carrying out primary activities, and include:

1. Firm infrastructure: general management responsible for the overall direction of the firm, including finance and accounting.
2. Human resource management: hiring, training, personnel development, benefits, reward structures and other HRM activities.
3. Technology development: acquisition and application of technology across the organisation. Information technology and the use of the Internet are the most visible of these activities.
4. Procurement: acquisition of materials necessary for the creation of the product or service of the firm.

Firms develop value chains that connect with their business model. Even at this rather general level, value chain analysis supports the analysis of existing processes and helps identify potential new processes, or combinations of processes, that encourage a competitive advantage. Strategists may choose to change the way they carry out, direct or support an activity to increase its contribution to revenue. In areas where significant revenue-enhancing expertise cannot be found within the firm, outsourcing is an attractive alternative chosen by an increasing number of organisations.

Some recent changes in business model emphasis by function can be found in Table 1.

Table 1: New business models for value chain activities

Activity area	New business model developments
Human resource management	Outsourcing recruitment
Finance	Outsourcing accounting services such as accounts payable and accounts receivable to offshore locations
Inbound logistics	Supply-chain management, relationship marketing and creative value through networks
Information technology	Collection of customer data via the Internet
Production	Mass customisation processes
Marketing	Guerrilla marketing, network marketing
Outbound logistics	Hub-and-spoke delivery systems

Source: Huff et al, 2008

The basic idea is that firms should adapt their value chains to become more effective competitors. For example, in the early 1990s Compaq Computer built personal computers for inventory, and assembled them in advance of customer orders. As a new entrant in this market, Dell altered this standard approach by only building to customer orders. Dell reduced their inventory costs in comparison to Compaq and other competitors, and eliminated unwanted and slow-moving computers with this new model. The success of Dell's new approach ultimately resulted in more sophisticated approaches to assembly by all firms in order to remain cost effective.

Dossani and Kenney (2006) conclude that a great portion of value chain activities has the potential to be located offshore. As stated earlier, this report focuses on the offshoring of finance and accounting activities, but the decision to offshore these activities is sometimes related to the decision to offshore other firm activities such as IT and manufacturing. In fact, offshore firms that perform IT activities are increasingly adding BPO to their scope (Wachovia, 2006).

In an academic paper, Smith, Morris and Ezzamel (2005, p416) argue that management accountants can *"play a key role in deciding when, and to whom, the organisation should contract."*

1.5 Firm activity drivers of offshoring

Offshoring is part of the never-ending search for efficiency and cost reduction in firms, and can be undertaken for both primary and support activities of the firm. Offshoring is particularly prevalent in back-office or support activities that are not as customer-facing as other functions of the business, and are therefore open to being located in lower-cost, non-customer-facing locations. There are five key drivers of activity offshoring: automation, disaggregation, consolidation, commercialisation and relocation (Evison et al, 2004).

1.5.1 Automation

Automation is when routine activities that can be performed without human intervention are mechanised, usually by computer. Firm functions that can be easily automated, such as payroll, are more likely to be outsourced and offshored to other providers, particularly if this activity is not a core competence of the firm.

1.5.2 Disaggregation

Disaggregation describes how activities that were formerly done by just one person can be separated into different tasks. For example, an accountant could perform a broad range of tasks from providing advice to basic bookkeeping; increasingly, however, accountants focus on higher-level advisory tasks, and the more routine job tasks are either automated or pushed into a SSC.

1.5.3 Consolidation

Consolidation refers to similar activities being combined into a shared service operation rather than every operating unit conducting its own business function separately. This can enable activities to be completed more efficiently in the central location. In the case of offshoring, activities would often first be consolidated in one location onshore and then moved offshore.

1.5.4 Commercialisation

Shared activities can be commercialised, either by making them into a profit centre within the firm, or by spinning them off through an outsourcing arrangement. For example, Dairy Farm, a Hong Kong-based retailer, established a 50 / 50 joint venture with Cap Gemini Ernst & Young. The joint venture, OneResource Group, provides accounting services to Dairy Farm and other companies from two SSCs, one in Hong Kong and the other in Guangzhou, China. Of the 200 employees (the same number

employed originally in Dairy Farm's finance and accounting group), just 90 are required for Dairy Farm; the remaining 110 OneResource employees work for other firms in the SSC. Dairy Farm estimates that it has saved 50 per cent of its costs, minimised its capital outlays and increased its revenue from an unexpected source (Accenture & EIU, 2004).

1.5.5 Relocation

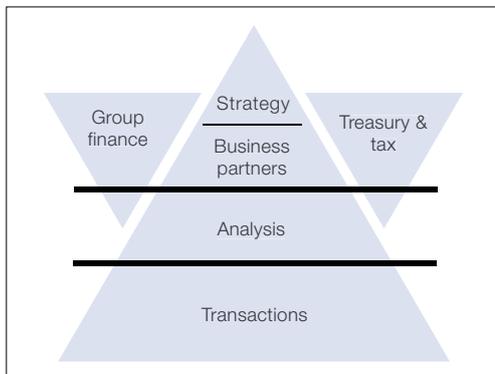
Shared activities can be relocated to a carefully selected location, typically chosen on the basis of cost or availability of employees, but sometimes for particular skills (e.g. language, data entry, analysis). The World Bank's relocation of finance back-office activities from Washington D.C. to India resulted in a 15 per cent cost savings and the elimination of a backlog of expense forms and accounts-payable items. The director of the World Bank's accounting department also describes how the accountants in India helped to improve the process; [accountants in India] "say '*While you are doing this, why don't you think about how we can do the process better?*'. . . *You get to clean out the backlog and you also get to re-engineer the business*" (Knowledge at Wharton, 2002).

2. Offshoring of finance and accounting activities

Finance and accounting services comprise 10 per cent of the approximately US\$975 billion worldwide BPO market, and the total number of finance and accounting services outsourced is expected to increase approximately 70 per cent over the next few years (GIA, 2008). Anecdotal and academic evidence indicates that large multinationals and small firms are increasingly offshoring their finance and accounting activities (CFO, 2004; DiGregorio et al, 2009).

Finance and accounting activities can be viewed as a hierarchy of value-added activities 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, group finance, tax and treasury; followed by business analysis activities such as managerial accounting and budgeting. Transaction activities, including credit, control, payroll, general ledger, accounts payable, and accounts receivable, sit at the bottom of the hierarchy. Figure 2 illustrates this hierarchy of finance activities in the firm.

Figure 2: Finance activities in the firm

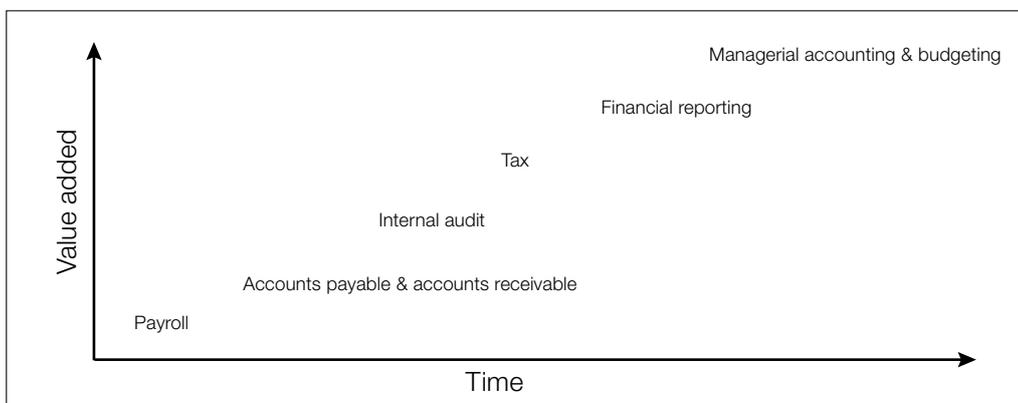


Source: Terjesen, 2006

Strategy, business partnerships, tax and treasury activities, which are at the top of the hierarchy, are generally located in-house at the firm’s corporate headquarters. However, new business models of outsourcing and offshoring are dramatically changing the organisation of finance activities in the rest of the firm.

The first finance and accounting activities to be outsourced are generally transactional activities (that are very simple and easy to automate) such as payroll¹, followed by increasingly value-added capabilities. Figure 3 illustrates the evolution of the offshoring of finance activities.

Figure 3: Evolution of the offshoring of finance activities over time



Source: Adapted from Terjesen, 2006

1 For example, for payroll, the following are commonly used software programs: Intuit Payroll®, PayCycle®, Micropay, Wagepay, Paychex®, ADP®, Deltek® and Accountix. To process payroll for a firm that already maintains accounting books, an offshore provider would typically only require this accounting sheet and an attendance sheet of employees, and could then process using one of these software programs.

This evolution is reflected in estimates of finance service offshoring that is already outsourced successfully:

- employee payroll (27%)
- tax compliance and planning (21%)
- financial systems application support (16%)
- general and financial accounting (13%)
- travel and expense processing (12%)
- accounts receivables and collections (12%)
- accounts payable and vendor management (9%)
- financial reporting (7%)
- management report preparation and analysis (6%)
- treasury and cash management (4%)
- financial risk management (3%)
- budgeting and forecasting (1%) (Accenture & EIU, 2004).

The evolution across time is due, in part, to the extent to which the activity can be easily automated. Payroll, accounts payable and accounts receivable can generally be processed much more efficiently than managerial accounting and budgeting. For example, in April 2005, the Mayne Group awarded a three-year contract to Infosys to take control of application support and change management for the firm's SAP finance and payroll systems (King, 2005).

Furthermore, the extent of value added by the activity is important – transactional automated activities such as payroll do not 'add value' to the business. Rather, more strategic activities, such as managerial accounting and budgeting, can be used to create wealth for the firm. For these reasons, managers may be keen to keep these activities in-house rather than send them overseas to another firm.

2.1 Offshore models

There are several different offshore models. 'Captive offshoring' describes when firms set up their own operations in offshore locations. The 'build, operate, transfer' model is when a (usually global) firm develops its own operation and then hands it over to a local firm to run. Firms can also establish joint ventures with other companies. Outsourcing, as defined above, generally involves contracting these activities to an external party. Looking at the two ends of the spectrum, 'captive offshoring' and 'outsource offshoring', there seem to be unique sets of benefits and challenges.

2.1.1 Captive offshoring

In terms of captive sourcing, the key benefit is total control over the cost and quality of services and all other elements of the process. Furthermore, the information is handled in-house, thus retaining talent and process knowledge.

Captive offshoring is not without its challenges. First, there may be an increase in the 'fixed cost' due to the spend on non-core resources and the investment in over-capacity. Furthermore, the firm is entirely dependent on in-house talent and must seek to retain and develop individuals while still staying on top of global best practices.

The captive model is illustrated in the many examples of accountants establishing offshore locations. For example, Harry Rosenberg and Julian Kirzner of Melbourne-based BKR Rosenbergs established a team of 17 accountants in Hyderabad, India, to perform tax compliance work for the practice using systemised processes (*Jewish Times*, 2006). Kirzner and Rosenberg report the skills shortage in Australia as the motivation, "*Any cost differential between Australia and India is likely to be short term and*

it's not about reducing the workforce, says Mr. Rosenberg. What it is about is addressing the skills shortage. Accountants are leaving the profession and all the Big Four Firms have briefs looking out for people" (Jewish Times, 2006).

The skills shortage described by the Australian accountants is well supported with research. For example, the Australian government has undertaken many programs to provide funding for students to pursue business and accounting studies (Meredith, 2006).

2.1.2 Outsource offshoring

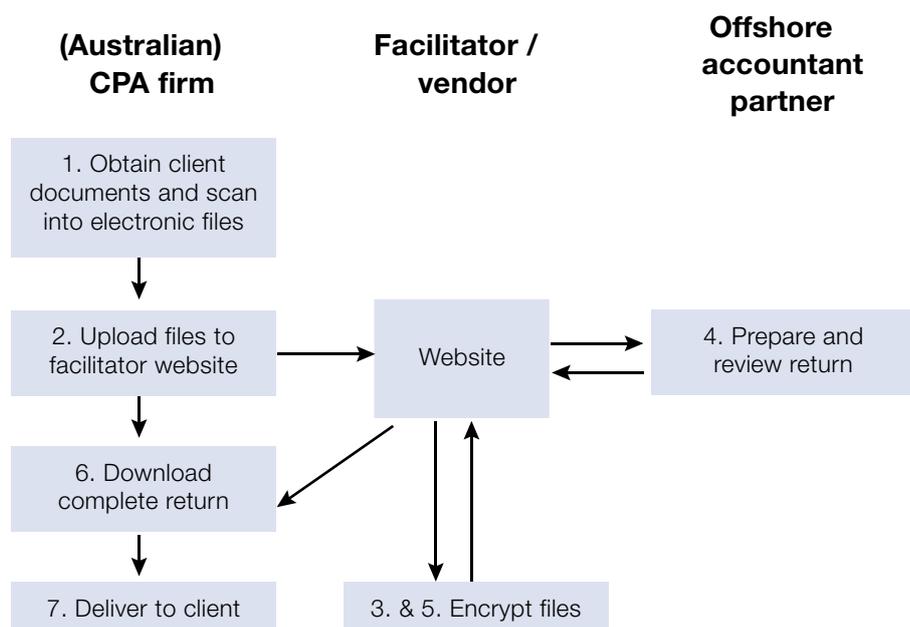
The second model involves the complete outsourcing of all activities to an offshore vendor. The primary benefits of this model include enhanced visibility of costs (that were otherwise hidden in a captive set-up), the ability to utilise global best practices from vendors and to add new service lines and address new markets without making substantial up-front investments.

The challenges of this model include the risk of sharing confidential information, intellectual property and key knowledge, the possibility of resistance from staff who will be affected by the integration and management of activities and culture between the client and the offshore service provider, and getting the level of service required from the offshore firm.

The outsource offshoring model is commonly employed, for example, in the case of tax returns (Robertson et al, 2004). The process has six steps, as depicted in Figure 4:

1. Client tax information is gathered by the accountant and scanned into an electronic file.
2. The electronic file is uploaded to the facilitator / vendor's website.
3. The facilitator / vendor encrypts the files and makes them available to the partner offshore.
4. The offshore accountant prepares, reviews and posts the tax returns, work papers, notes and reconciliations to the facilitator / vendor's website.
5. The accountant downloads the completed return and documents from the facilitator / vendor's website.
6. The accountant reviews and signs the return and forwards it to the client for filing.

Figure 4: Tax compliance offshoring process



Source: Adapted from Robertson et al, 2004

For basic bookkeeping, a variety of offshore options are available. For example, one India-based provider offers the following three options for offshore bookkeeping:

1. Server-based: the firm sends its documents by fax or courier, or scans and uploads to a secure server. The Indian firm's bookkeeper updates the firm's books on the same day using the firm's choice of software, such as QuickBooks, Peachtree and Creative Solution. The updates are then posted on an encrypted secure server and the firm can download them.
2. Remote desktop-based: the firm sends its documents by fax or courier, or scans and uploads to a secure server. The Indian bookkeeper connects to the firm's computer using a remote desktop access service such as Secure VPN. The files are then updated on the firm's computer.
3. Hosted / online-based: the firm sends its documents by fax or courier, or scans and uploads to a secure server. The Indian bookkeeper logs into online accounting software, such as quickbooksonline.com, to update the books. The firm can then access this material via the Internet.

As of 2010, this provider uses a secure 128-bit encryption for all of these processes.

2.2 General benefits from offshore models

There are five generic categories of benefits from offshore models, as depicted in Table 2. The specific benefits and costs that Australian firms accrue are described later.

Table 2: Generic benefits from offshore models

Benefit	Description	Costs associated with these benefits
Wage arbitrage	The difference in salary costs per Full Time Equivalent (FTE) employee, including additional payments such as overtime.	<ul style="list-style-type: none"> • Redundancy costs • Transition costs to new location
Labour consolidation efficiencies	The benefit created by doing the same things in the same place (shared service centre) and creating critical mass around processes. This is normally seen as a reduction in FTEs required to do the same amount of work as was done before the shared service centre was implemented.	<ul style="list-style-type: none"> • Redundancy costs • Transition costs to new location • Knowledge transfer • Change of management
Process harmonisation efficiencies	Benefit of doing the same things in the same way. This builds on labour consolidation efficiencies by adding process streamlining to build further scale benefits and increased service quality and cost through having fewer process exceptions.	<ul style="list-style-type: none"> • Redundancy costs • Transition costs to new location • Knowledge transfer • Process harmonisation costs, including technology • Process transformation projects • Enhanced change of management
Wage elimination	The benefit created by automating activities.	<ul style="list-style-type: none"> • Redundancy costs • System implementation costs
Tax savings	Any savings in taxation as a result of implementing new trading relationships	<ul style="list-style-type: none"> • Redundancy costs (if relevant) • Transition costs to new location (if relevant) • Legal costs for restructuring • Stock write-downs • Costs of engagement with tax authorities • Write-off of tax losses not used and which cannot be transferred to new entities.

2.3 Services available offshore

Offshore partners offer a range of finance and accounting services. For example, one leading provider that targets the Australian market offers data processing, financial reporting and analysis, payroll processing and research and analysis. Data processing includes revenue processes (accounts-receivable processing, sales order processing, customer invoicing, debt collection, account applications), disbursement processes (accounts-payable processing, travel and entertainment expenses accounting, cash disbursement processes, processing letter of credit-related documents) and cost and inventory accounting processes (maintaining inventory records and developing and updating costs).

Financial reporting and analysis activities offered by the same offshore provider include preparing monthly, quarterly and annual management reports; financial analysis, such as ratio analysis, break-even analysis, net present value and internal rate of return analysis; financial modelling, such as preparation of cash flow models, income statements and balance sheet projections; formulation of business plans (specialised service for small businesses), and performance of variance analysis of stock holdings and stock count figures.

This offshore provider's payroll processing includes creating and maintaining employee profiles on the payroll system, managing time and attendance, processing weekly / bimonthly / monthly payroll from time sheets, calculating net pay cheques and taxes, and maintaining a payroll journal and payroll summary sheets. Research and analysis activities include industry market research, company research and business environment and industry risk ratings.

2.4 Major global players in the offshoring of finance and accounting activities

The offshoring of finance and accounting activities is facilitated by firms of all sizes. Table 3 lists the major global players in the offshoring of finance and accounting activities.

Table 3: Major global players in offshoring of finance and accounting

Company (HQ Location)	Speciality	Locations	Offshore Revenue
Accenture (US)	Software development, network support, finance and accounting (F&A), HR, procurement, insurance operations, general banking	India, Philippines, Spain, China, Czech Republic, Slovakia, Brazil, Australia	Over US\$5 billion
Affiliated Computer Systems (ACS) (US)	F&A, HR, payroll, procurement, telecom, transportation, healthcare operations, general banking, mortgage processing	India, China, Dominican Republic, Ghana, Guatemala, Jamaica, Malaysia, Mexico, Spain	US\$1–5 billion
CSC (US)	Software development, insurance operations, demand management	Canada, Bulgaria, Ireland, India, Mexico, Malaysia, South Africa, Spain	over US\$5 billion
EDS (US)	Software development, network support, F&A, HR, payroll, demand management, procurement, insurance, general banking, telecom, transportation, healthcare operations	Canada, Mexico, Brazil, Argentina, India, Australia, South Africa, Spain, Hungary	over US\$5 billion
Hewitt Associates (US)	HR, payroll, procurement	India, China, Philippines, Thailand, Malaysia, Czech Republic, Poland, Hungary, Brazil, Mexico, Argentina, Chile	over US\$5 billion
Hewlett Packard (US)	F&A, payroll, procurement	India	over US\$5 billion

Company (HQ Location)	Speciality	Locations	Offshore Revenue
IBM (US)	Software development, network support, banking, mortgage processing	India, Czech Republic, China, Australia	US\$1–5 billion
Mphasis Corp (India)	Financial services	India, China, Australia	under US\$100 million
Office Tiger (US)	F&A, financial services, transaction processing	India, Sri Lanka	under US\$100 million
Tata Consultancy Services (India)	Software development, R&D / engineering, F&A, telecom, transportation, hospitality operations	India, Hungary, Brazil, Uruguay, China, Chile	US\$1–5 billion
Wipro (India)	Software development, R&D / engineering, demand management, mortgage processing, transportation operations, healthcare operations, banking, mortgage processing	India, Canada	US\$1–5 billion
WNS Global Services (India)	Transportation operations, healthcare operations, banking, mortgage processing	India, Sri Lanka	under US\$100 million

2.5 Impact of offshoring on host and home countries

A limited body of research examines the impact of offshoring on host (where offshore provider is based) and home (where focal firm is based) countries.

2.5.1 Host countries

In terms of host countries, research suggests many positive impacts on individual, regional and national economic experiences. A vibrant offshoring sector (such as that in cities like Bangalore in India) leads to job growth, increased spend (the multiplier effect), an emerging middle class, positive current accounts balance, local knowledge enhancement, concentrated urban and regional growth, new economic activity and change in institutional structures (Terjesen, 2006). Some studies have also documented negative impacts of offshoring to the host country, including the potential for regional or national overexposure to a particular industry.

2.5.2 Home countries

In terms of home countries, research is more limited and mixed.

Employment

Recent research suggests that only a small percentage of net job losses are attributable to offshoring (in the United States, the estimate is just 2 per cent). There are many estimates of the prevalence of the offshoring of jobs, particularly for the United States. For example, it has been estimated that over 3 million white-collar jobs, worth US\$136 billion in wages, are forecasted to move overseas from the United States by 2015 (Kripalani et al, 2003). Others put the figure at 3.4 million by 2015, or about 30,000 per month (Forrester, 2004). Citing Baily and Farrell (2004), economists Mankiw and Swagel (2006) point out that 30,000 jobs per month is quite small compared to the estimated 2 million job changes that occur each month in the United States.

Mankiw and Swagel (2006) argue “*increased employment in the overseas affiliates of US multinationals is associated with more employment in the US parent rather than less.*” The offshoring of certain firm activities is believed to provide employees with more time to do other work. For example, the offshoring of routine tasks frees employees to do more complex strategic work, adding greater value to their employer.

Economic impact

Again, economic impact results are mixed. McKinsey & Company estimates (for the United States) that every dollar spent on offshoring is expected to generate US\$1.12 to US\$1.14 in return (McKinsey, 2003). This figure is based on the estimated savings to United States consumers and investors (\$0.58), import of United States goods and services by Indian providers (\$0.05), transfer of profits to the parent company (\$0.04), and the value of the re-deployed United States labour (\$0.45–0.47).

Using a Heckscher–Ohlin variant, Deardoff (2004) showed that “*outsourcing can lead wages of unskilled workers in the north [developed world] to actually fall below unskilled wages in the south [developing world] though there are cases in which all workers in the north [developed world] gain from the possibility of outsourcing*” (Mankiw & Swagel, 2006).

Farrell et al (2006) are more positive: “*As global labour markets become increasingly integrated, rational action by companies and countries will help facilitate the efficient clearing of supply and demand for jobs.*” Dossani and Kenney (2006, p40) offer the following commentary, “*For a host of occupations, efficient market clearing will set a new global wage that, if there are labour shortages with that skill set, will cause wages to increase globally. On the other hand, if in the occupation there are labour surpluses, then wages will settle to the market-clearing rate and those requiring the highest wages will not be employed. If, as Farrell et al [2005, p6] predict, this is the future, then these high-cost workers must prepare by finding new ways to add value in the global economy.*”

Backlash initiatives

At the country level, many individuals have established initiatives to attempt to retain firm activities at home and relocate offshored activities back home. In the United States, these initiatives are partly based on fears that further job losses to offshore hosts will negatively impact the already underfunded Social Security, Medicare and workers compensation schemes. For example, at the national level, United States president Barack Obama addressed offshoring in his 27 January 2010 State of the Union address, asserting that the United States government should encourage “*businesses to stay within our borders, it is time to finally slash the tax breaks for companies that ship our jobs overseas, and give those tax breaks to companies that create jobs right here in the United States of America*” (Obama, 2010).

At the state level, there are a number of initiatives, such as the *Keep Jobs in Colorado Act*, *Opportunity Indiana* and the *American Jobs Act* of Wisconsin. These efforts have led to, for example, the governor of Indiana being pressured in November 2003 to withdraw the Indiana Government from a US\$15 million outsourcing contract with India-based Tata Consultancy Services as it was deemed inappropriate to use state funds to pay for foreign workers.

3. Offshoring by Australian firms

In June 2009, CPA Australia conducted a survey of 227 CPA Australia members about their involvement in offshoring finance and accounting activities. This survey was followed up with a round-table discussion in October 2009. This section outlines the key findings from the survey and other sources about offshoring as a business strategy in Australia.²

3.1 Offshoring of all firm activities

Of the 227 CPA Australia members surveyed, 11.7 per cent stated that their employer offshored some finance and accounting activities. Finance and accounting is the second-most-popular activity to offshore, trailing IT (14.6 per cent of members surveyed said their employer offshored some IT functions). CPA Australia members reported offshoring of the following activities:

- IT (14.6%)
- Finance and accounting (11.7%)
- Manufacturing (9.7%)
- Call centre (7.2%)
- Product design (6.1%)
- Research and development (5.7%)
- Human resources (5.5%)
- Procurement (4.9%)
- Risk and compliance (3.5%)
- Legal services (2.2%)
- Marketing and sales (2.2%).

Compared to countries in the rest of the world, Australian firms offshore a large percentage of activities (Capgemini, 2010). However, with respect to finance and accounting activities, it appears that the survey suggests that Australian businesses lag their counterparts in the United States and Europe who report, on average, about twice as much offshoring (CFO, 2004). The most activities are sent offshore by the United States, United Kingdom and Japan, as well as Western Europe (Conference Board, 2005).

There is evidence across countries and firm activities that offshoring is expected to increase. For example, Harris Miller, president of the Information Technology Association of America, testified in front of the United States House of Representatives in 2005 that offshoring represents 4 per cent of American firms' outsourcing activity, but could total as much as 40 per cent of large firms' activity in the future.

3.2 Offshoring of finance and accounting activities

Within finance and accounting services, there are differences in terms of the stages of offshoring, as depicted in Figure 5. As shown, the most common activity currently offshored or with the offshoring process underway but not yet completed is accounts payable, followed by banking and other reconciliation. This finding suggests that those finance and accounting activities that are easiest to automate and require only minimal skills (e.g. accounts payable, accounts receivable) are most likely to be offshored.

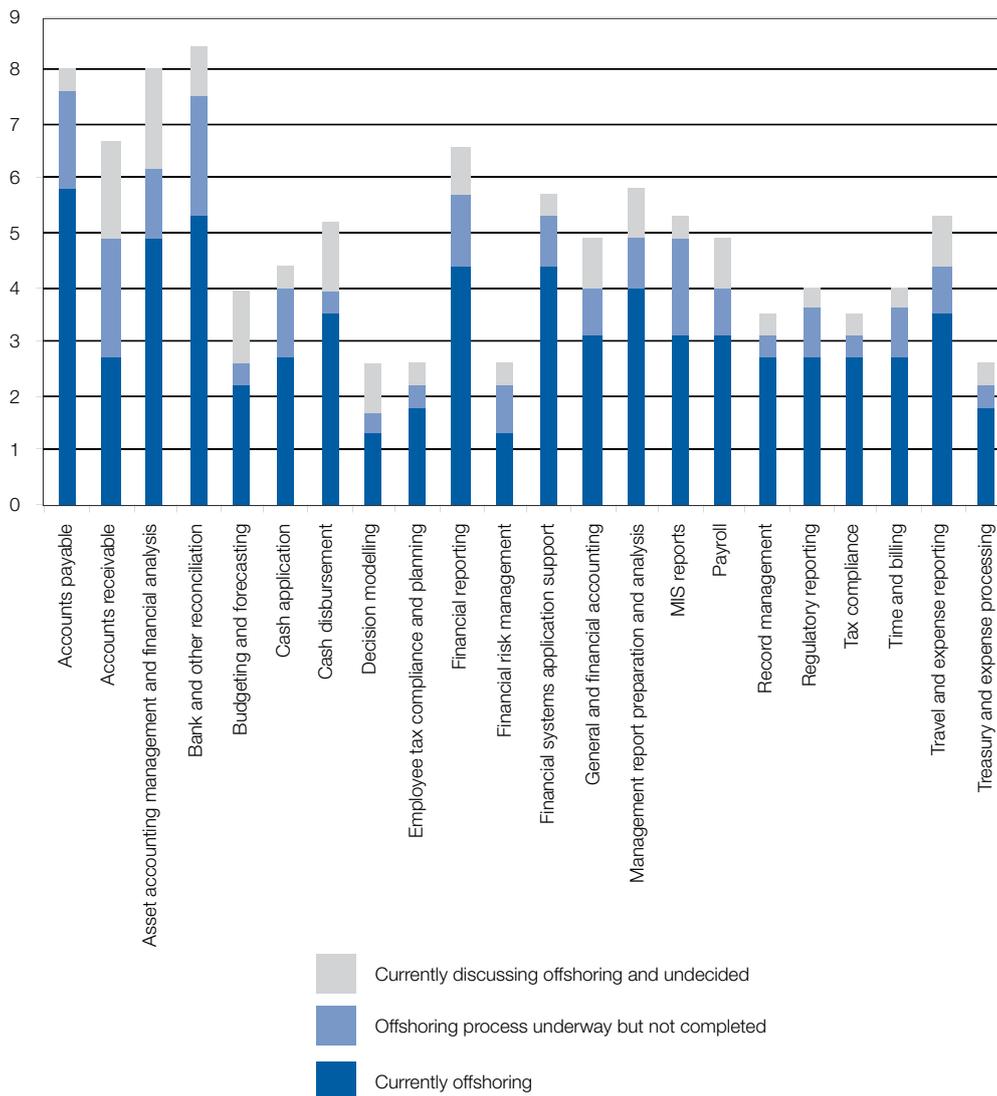
As expected, members reported that the higher-value-adding activities, such as financial risk management and decision modelling, are least likely to be offshored now or in the future. This indicates that Australian businesses may be reluctant to undertake strategic finance activities outside Australia. The CPA Australia survey findings are similar to those in other countries. For example, a survey of United Kingdom firms identified that payroll is the most currently or planned outsourced finance and

² Survey methodology: The survey was posted online and an email was sent to CPA members. The questions were based on prior research and feedback from CPA members.

accounting function, followed by travel and expenses, accounts receivable, tax compliance, tax planning, general ledger, management reports, treasury and cash management, internal audit and budgeting and forecasting (KPMG, 2006).

CPA Australia members reported that their employers identified their finance and accounting outsource service provider through one or more of the following: on the basis of a case presented by the service provider, recommendation, consulting firm referral, advertisement, reputation / experience and conference.

Figure 5: Percentage of firms offshoring finance and accounting activities by stage



3.2.1 Advantages

The advantages of offshoring are reported to be based on firm, industry and environmental pressures. As depicted in Figure 6, the most important reasons to offshore as cited by members are:

- access to new markets for products and services
- solve domestic skills shortage
- offshoring is accepted industry practice, and
- increased speed to market.

By contrast, members gave limited importance to:

- access to qualified personnel
- cost savings, and
- enhancing efficiency through business process redesign.

Taken together, this suggests that Australian managers are driven to offshore by the promise of new markets and speed to market rather than cost and process efficiencies. The statement “offshoring is accepted industry practice” was third-most important of the 11 items – indicating that offshoring is considered an entrenched and legitimised strategy.

Figure 6: Offshoring strategic pros (by increasing importance, where 5=very important)



Individual interviews and a round-table forum of CPA Australia members generated more qualitative comments about experiences offshoring finance and accounting activities³. Members reported that the offshoring of transaction activities freed employees and managers from routine tasks and enabled them to focus on core competences and more-value-adding activities. Several members described offshore providers as ‘partners’ who may have more detailed knowledge about regulatory and reporting requirements. Members also reported feeling comfortable with the successful track record of offshore providers in automating high-volume, low-value activities. One member highlighted the potential for offshoring to improve transparency and disclosure by distancing the managers who ‘create’ performance from the accountants who measure it. Another advantage was the different time zones that enabled work to be done around the clock.

Taken together, these findings differ only slightly from those of senior executives around the world. For example, an Accenture / Economist Intelligence Unit (EIU) survey of 237 senior executives reported the following advantages:

- lowering costs and maximising efficiencies (66%)
- enabling sharper focus on core competences (55%)
- increasing business productivity of CFO and other finance staff (32%)
- access best-of-breed talent and technology (32%)
- improving quality of service (26%)
- delivering greater transparency and openness in the eyes of the market (25%)

³ The identity of CPA Australia members and their firms are concealed.

- improving quality of finance-related data and analysis (24%)
- handing off development and compliance risks (15%)
- enhancing disaster recovery and continuity planning (13%), and
- being the catalyst for wider organisational change (12%).

In a separate survey of global firms, Gartner identified the following top drivers of BPO, in descending order:

- focus on core business
- improve shareholder value
- improve service levels
- reduce transaction costs
- reduce implementation costs
- introduce innovation
- migrate to new technology
- shorter implementation time
- gain process knowledge
- re-engineer business process
- supplement IT staff / resources, and
- convert fixed assets to variable costs (Gartner, 2003).

In the Australian banking and finance industry, Axiss Australia (the former Australian government body responsible for positioning Australia as a global financial centre) described offshoring as driven by *"the push towards global sourcing at most financial services organisations, enhanced ability to consolidate analytics and analytics support functions, methodologies and software platforms, trend towards harmonisation of standards, qualifications, skill sets and experience requirements for performing analytics functions, increasing sophistication of process quality control and growing realisation of the quality of the education systems in offshore locations"* (Axiss, 2006, p5). Among firms in the banking and finance industry, there has been a push to extend outsourcing to middle office activities such as reporting settlement and communication, portfolio record keeping, reconciliation and reporting (PiperJaffray, 2005).

3.2.2 Impact of offshoring on firm performance

A growing body of academic work explores the impact of offshoring on firm performance. Bhalla, Sodhi and Son (2007) explored the relationship between firm performance and the extent of offshoring of business processes (including payroll and claims processing) as well as software development / IT and call centres, but did not identify any significant relationship.

3.2.3 Preferred offshore locations

In terms of locations for the offshoring of finance and accounting activities, CPA Australia members reported preferences for the following countries:

- India (27.3%)
- Malaysia (13.6%)
- Philippines (9.1%)

- Singapore (4.5%)
- United States (4.5%)
- China (4.5%)
- Vietnam (2.3%)
- Hong Kong (2.3%)
- Indonesia (2.3%)
- New Zealand (2.3%)
- United Kingdom (2.3%).

Nine of these 11 countries would be classified as 'nearshoring' as they are located in the same Asia Pacific region. Similar surveys undertaken in the United States and Europe reveal that the strongest preference is for India, but other regions are favoured, perhaps for their comparative 'nearshore' location, such as Central / Eastern Europe, Central / South America / Caribbean, Canada and Europe (Accenture & EIU, 2004; Evison et al, 2004; Wachovia, 2006). For example, 60 United Kingdom firm members of the National Outsourcing Association (NOA) were asked about their beliefs about what destination will become the most popular for outsourcing finance functions; 47 per cent expressed a preference for outsourcing but onshoring to the United Kingdom, followed by offshore locations: India (29%), Asia (13%), Eastern Europe (7%), Western Europe (3%) and China (1%) (KPMG, 2006).

Spotlight on India

India is currently the world leader in offshore destinations, with 46 per cent of the world market for offshore business processes (NASSCOM-McKinsey in Janney, 2006). India's offshore IT and BPO industries employ approximately 1.5 million people in India and account for 7 per cent of the country's GDP (Janney, 2006). By 2011, Indian firms may be able to process as many as 22 million tax returns per year, generating a total revenue of US\$2.1 billion (Research & Markets, 2006). India-based big players include Infosys (formerly Progeon), Wipro BPO (Spectramind), WNS Holdings, HCL Tech (BPO) and MSOURCE (Janney, 2006). India's offshore cities include: Ahmedabad, Bangalore, Chandigarh, Chennai, Coimbatore, Hyderabad, Jaipur, Kochi, Kolkatta, Mangalore, Mumbai, National Capital Region (Delhi) and Pune (PwC, 2005).

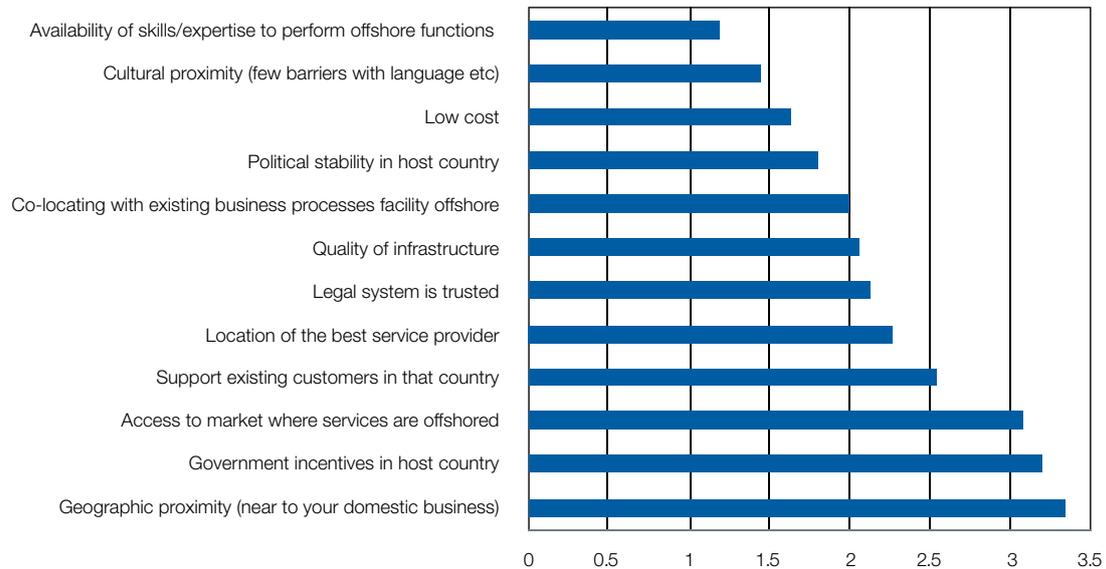
The Indian government is keen to continue to develop India's market for offshoring finance and other activities. Government legislation has led to favourable taxes and other business start-up friendly policies for multinationals establishing their own centres in the country and for multinational and Indian third-party providers of outsourcing services. This occurs at both the national level and also the city and state levels, which often compete for new business. The Indian government has engaged in relationship building at company, regional and country levels.

In order to meet new business needs, the Indian government has taken a new educational focus in key skill areas for the future, such as industry-specific knowledge and new languages. New 'industry focused' curricula are aimed at developing deep skills and requisite environmental knowledge. New training is also being undertaken in French, German, Japanese and other languages in order to meet future demands from non-Anglo American countries.

Country selection criteria

Figure 7 depicts the criteria for country selection for offshoring, highlighting preferences as mostly based on geography, government and customer factors. Preferences were least likely to be based on the availability of skills or expertise to perform offshore functions, cultural proximity, low cost and political stability. As noted above, the top reason is geographic preference. CPA Australia members indicated their employers prefer nearshoring to countries in the Asia Pacific region. They are also strongly attracted by government incentives and the possibility of being near current and future customers. This suggests that offshoring is part of a larger international business strategy. The low importance given to 'low cost' is consistent with the findings reported in Figure 6 – that expected cost savings is not a key driver.

Figure 7: Country selection criteria (by increasing importance where 5=very important)



3.2.4 Assessment of offshore providers

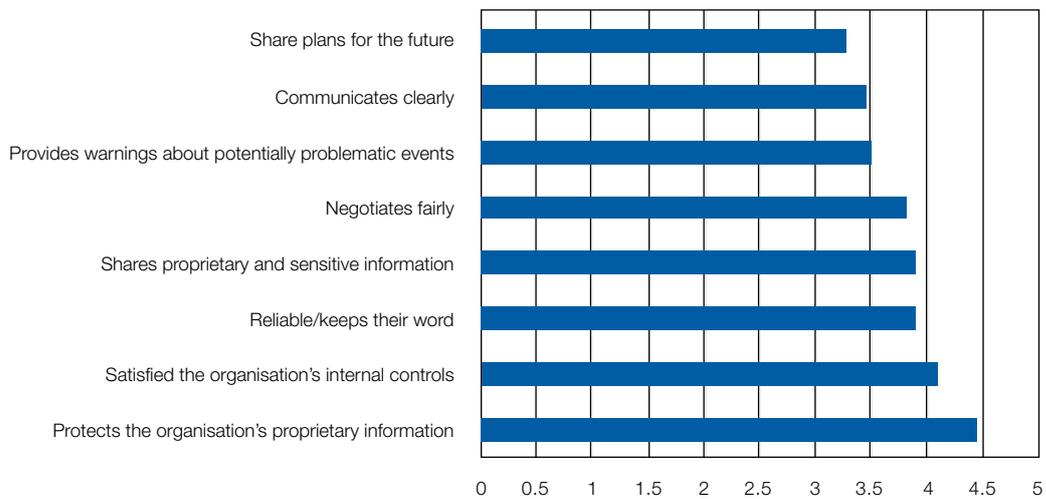
The CPA Australia members that responded to the survey also provided assessments of their offshore service providers (see Figure 8). In general, the members were extremely pleased with the offshore providers' ability to protect the organisation's proprietary information, internal controls and reliability. In contrast, CPA Australia members were least likely to indicate that their provider "shares plans for the future." This suggests that either having shared plans is not important or that the member's employer communicates plans to the provider and does not necessarily seek input.

The findings are not surprising given that usually offshore service providers take great care to protect their client data. Interviews with offshore service providers revealed a variety of security precautions including the following:

- access control at both entry and exit by security guard for all employees and visitors
- no USB drives, CDs or other storage devices allowed on the work floor
- all employees sign a non-disclosure agreement
- all new employees are hired only after passing reference and police clearance checks
- all data stored in client server farms and processed through remote access to those client servers
- regular security audits
- regular data back-ups
- secured line for all access and transmit services
- firewalls
- individual domain accounts to ensure that source documents are accessed only by authorised employees
- no fax or printing capabilities at the processing site

- no PCs with floppy / USB or CD drives
- no e-mail or web access
- regular use of anti-virus software, and
- low usage of paper.

Figure 8: Offshoring service provider assessment (by increasing agreement where 5=strongly agree)



3.2.5 Risks

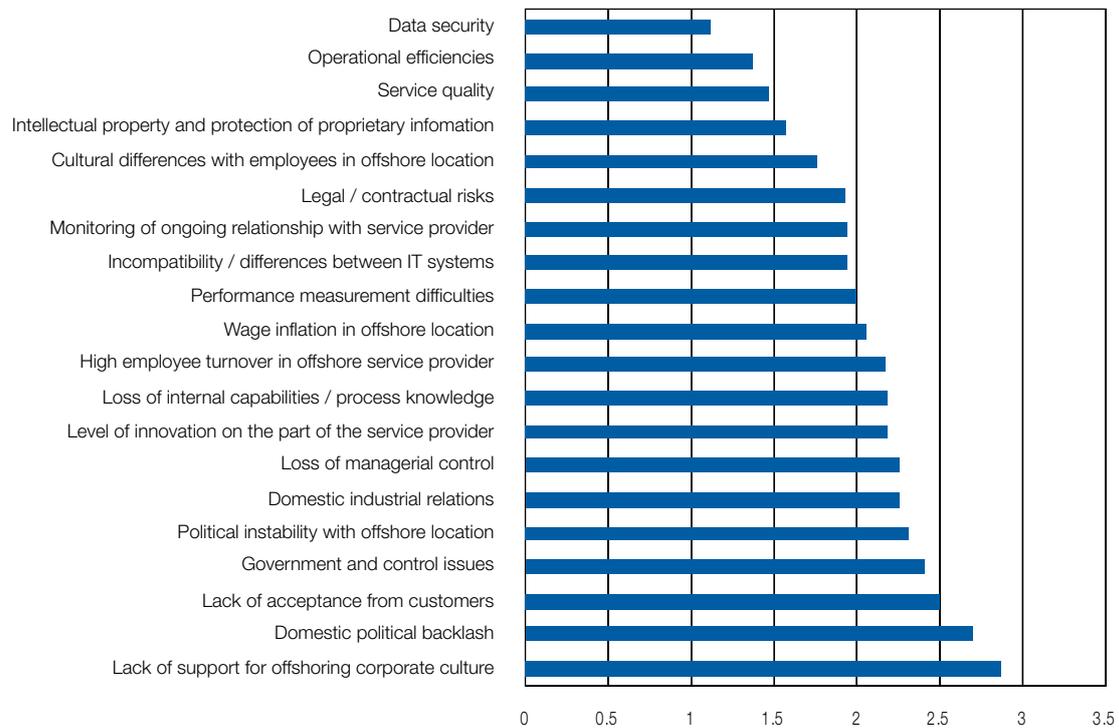
CPA Australia members were asked about the risk of offshoring finance and accounting activities. As depicted in Figure 9, the five greatest risks are:

- lack of support for offshoring in corporate culture
- domestic political backlash
- lack of acceptance from customers
- government and control issues, and
- political instability with offshore location.

In contrast, the risks ranked least important are:

- data security
- operational efficiencies
- service quality
- intellectual property and protection of proprietary information, and
- cultural differences with employees in offshore location.

Figure 9: Risks considered when offshoring finance and accounting activities (by increasing importance where 5=very important)



Individual interviews and a round-table forum of CPA Australia members generated more qualitative comments about experiences offshoring finance and accounting activities. Some managers who did not yet engage in offshoring reported being reluctant to share finance data with third parties, for fear that this information might somehow reach competitors. Others reported a fear of losing in-company accounting talent if activities were moved outside the firm.

Managers noted that outsourcing activities took a long time, particularly if the processes first needed to be simplified, standardised and centralised. This may be due in part to the cultural differences. One manager noted that a firm's business needs change and the offshore partner may not be prepared to deal with this change. Another manager noted that performance measures are neither easily developed nor implemented. Many managers expressed a desire to develop service level agreements (SLAs) in the future.

Taken together, these findings suggest that CPA Australia members are more concerned with the risk of acceptance by stakeholders (e.g. employees, customers, politicians) than with the risks of security and service quality and efficiency.

The CPA Australia member perceptions are similar to those of other senior managers around the world. A survey of managers of 52 United States and European firms identified the following risks of offshoring:

- cultural differences and political uncertainty (32%)
- evaluating contract performance is harder (14%)
- out of sight, out of mind treatment (14%)
- accountability even more lax (11%)
- expenses and travel to visit, evaluate (9%), and

- staff turnover is higher (5%) (Conference Board, 2005).

A Bearing Point survey of 59 medium- and large-sized European firms revealed the following evaluation of risks, in descending order:

- dependency on providers
- risk of low-quality service
- in-house problems, staff motivation, loss of know how
- neglect of specialised processes and particularities
- cutback of business flexibility
- data security and confidentiality, and
- problems due to country-specific regulations (Bearing Point, 2004).

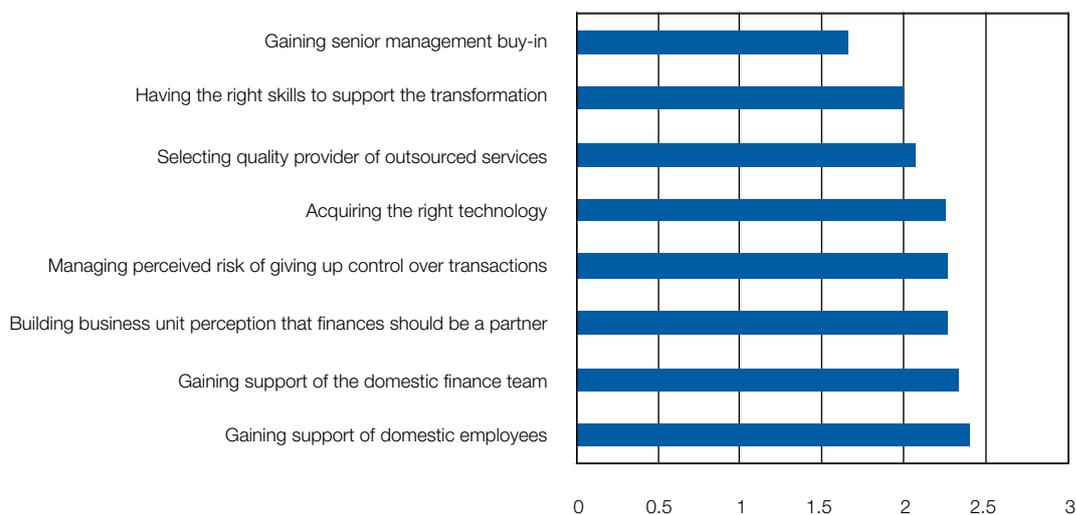
3.2.6 Success factors

Finally, those CPA Australia members who judged the offshoring of the finance and accounting function of their employer to be successful were asked about what factors contributed to that success. As depicted in Figure 10, the leading factors were:

- gaining support of the domestic finance team, and
- gaining support of domestic employees.

The factor that was reported to be least important for success was gaining senior management buy-in. Clearly, the support from internal employees in the finance and accounting areas is deemed critical.

Figure 10: Overall outsourcing agreement (by increasing agreement, where 5=strongly agree)



The finding that internal support of the team operating at the coal face is important is consistent with research from around the world. Traditionally, careers followed an upward, linear progression through one or two firms or consisted of stable employment in one profession (Sullivan, 1999). Macroeconomic forces such as globalisation and technology have changed the nature of careers and of the psychological employment contract, which was originally seen as an exchange of employee loyalty for job security. This contract has further eroded with the pressure of outsourcing, particularly when employees are asked to train individuals from overseas who will take their jobs.

A Conference Board survey identified disgruntled employees as the greatest threat to a corporate offshoring plan (Conference Board, 2005). The report noted, “60% of offshore project failures result from ‘someone directly tied to it who has seen to it

that it falls off the rails.’ Whether they’re concerned about a change in their responsibilities or the loss of their (or their fellow employee’s) job... a disgruntled employee can easily torpedo an offshoring effort by blocking meeting with vendors or consultants, raising opposition throughout the process, or going so far as to sabotage computer code developed offshore” (Conference Board, 2005).

Of United States and European firms interviewed in Conference Board’s Outsourcing Trends study, 30 per cent reported that they used consultants to facilitate contract negotiation. Twenty-seven per cent reported using a consultant to help select the outsource providers and 7 per cent reported using a consultant for oversight of contract performance (Conference Board, 2005).

Recommendation for the successful implementation of an offshoring program⁴

Taking the survey results together with the round-table and interviews with individual CPA Australia members, we recommend the following requirements for the successful implementation of an offshoring program:

1. Gain support of leadership and management throughout the organisation.
2. Appoint a committed offshoring champion to drive the initiatives.
3. Seek alignment between business objectives and outsourcing objectives.
4. Understand technology and stakeholder requirements.
5. Craft a careful risk-mitigation strategy.
6. Identify baseline processes and clearly defined interfaces before offshoring.
7. Establish measures of business impact of offshoring.
8. Commit adequate and competent resources to support offshoring.
9. Establish a change management, communication and implementation plan.
10. Develop a sound offshore vendor selection process.
11. Develop a complete contract to include pricing (fixed price plus any fluctuations), performance and quality, full scope of costs, staff issues (employment, tax, pension, data protection laws), and security environment.
12. Treat the offshore provider as your front office.
13. Develop a strong system for governance of your offshoring provider that includes performance targets.
14. Institute demand management to avoid scope creep and to create visibility for escalations.
15. Monitor the extended support provided by the retained organisation to assess issues with stabilisation and knowledge retention.
16. Incorporate global process ownership functions with the offshoring provider.

⁴ Thanks to Ramana Akula and other round-table participants for their feedback here.

4. Offshoring to Australia: Establishing a hub for certain finance and accounting activities

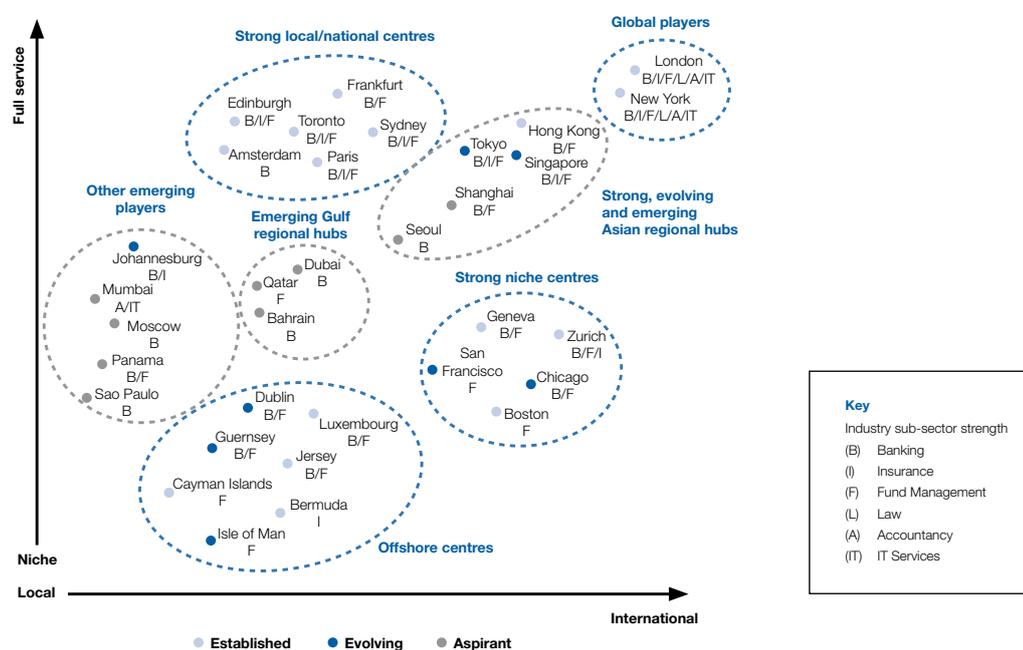
Recently, a number of Australian industry bodies, including Invest Australia and the Australia Financial Centre Forum, have promoted Australia as a location for the offshoring of analytics capabilities. Axiss Australia's (2006) report *Australia as a Hub for Analytics Offshoring* laid out the case for making Australia an analytics hub for activities such as equity research, corporate finance and mergers and acquisitions, corporate credit, structured finance and project finance, retail banking, strategic functions and actuarial services. In 2010, the Australia Financial Centre Forum published *Australia as a Financial Centre: Building on our Strengths* (also known as the Johnson report).

According to Axiss (2006, p3): "Australia's deep and sophisticated financial markets, large numbers of finance sector professionals and ready pool of tertiary trained students make a compelling business case for Australia as an analytics offshoring hub. Added to this are low operational risk, a transparent and world best practice regulatory framework, a strong legal (and intellectual property) system, sophisticated ICT infrastructure, and highly competitive professional salary levels and office accommodation costs." As relayed by Gary Johnston, executive manager at Axiss Australia, "People simply don't realise how sophisticated Australia is in terms of its financial markets... It became obvious there are things they are doing in India which we could do equally well or better here... We have better infrastructure, we have a strong and transparent regulatory and legal framework and a deep pool of accounting, actuarial and analytical skills. Australia is very well placed to provide the high-value-added activities."

The key arguments and recommended changes put forth in the Johnson report (2010, p7) are as follows: "Australia has arguably the most sophisticated and advanced financial sector in the region. However, while Australia is a very open trading economy overall, our exports and imports of financial services as a percentage of GDP are, by international standards, low. The opportunities for leveraging off our financial services skills and expertise, in the region and beyond, are potentially enormous, and have been fully recognised by the Government. This has been reflected in the establishment of the Forum and also in a series of policy decisions taken since it [the current Australian Labor government] came into office. The policy changes recommended in this Report are designed to build on these developments. The recommendations are geared towards a wide range of opportunities for greater international engagement: Australian based fund managers managing more offshore sourced funds; foreign competitors setting up business in Australia or marketing their financial products in Australia; Australian banks doing more transactional business in the region; financial institutions having easier and cheaper access to offshore pools of savings to finance investment; or the Australian based treasury operations of a financial services company managing its offshore assets out of Australia."

The Johnson report also included data from a recent United Kingdom financial services sector report on financial centres around the world (See Figure 11). As shown, Sydney is depicted as a full service, national location, in the 'Strong local / national centre' cluster with Amsterdam, Edinburgh, Frankfurt, Paris, and Toronto. The Johnson report concludes that "this subjective assessment is confirmed by the following and other observations set out in this Report: our exports and imports of financial services relative to the size of our financial sector are low by international standards; and despite having one of the largest and most sophisticated funds management sectors in the world, the volume of funds under management in Australia that is sourced offshore is very low."

Figure 11: Categorisation of the world's financial centres



As of 2006, there are several examples of offshored analytics activities in Australia, including service operations for American Express, Citigroup, Deutsche Bank, Fidelity International, JPMorgan, Merrill Lynch, Morgan Stanley, Reuters, Royal Bank of Canada and UBS (Axiss, 2006, p7). Axiss also provided evidence in salary calculations between the United Kingdom and Australia, indicating a cost advantage for Australia (see Table 4).

Table 4: Salary Comparisons Sydney and London (2005)

Position	London				Sydney (\$,000)		
	From (£, 000)	To (£, 000)	Mid-range (£, 000)	A\$ (000)	From	To	Mid-range
Newly qualified Actuary	Not avail.	Not avail.	Not avail.	134–201	85	125	105
Fixed Income Operations Manager	50	70	60	142	70	120	95
Derivatives Operations Manager	55	65	60	142	90	130	110
Foreign Exchange Operations Manager	45	60	53	124	80	110	95
Equities Operations Manager	48	60	54	128	80	130	105
Fund Accountant (3+ years experience)	50	60	55	130	75	100	88
Internal Auditor (2–5 years experience)	55	65	60	142	80	110	95
IT Director	90	150	120	284	165	240	203
IT Manager	60	100	80	189	105	140	123

Source: Axiss 2006

For comparison, at more basic financial / accounting services, salaries in India and Australia for bookkeeper / junior accountants and staff / senior accountants are depicted in Table 5. As shown, compared to India, Australian salaries are 71–138 per cent higher.

Table 5: Accounting-related salary differences (in AU\$)

Similar job descriptions	Salary in India	Salary in Australia	Variance
Bookkeeper / junior accountant	15,900	37,800	138%
Staff accountant / senior accountant	33,150	56,700	71%

Source: Platformservices.com; Notes: 1. Employee benefit costs for Australian employees not included in comparison; Indian salary is only an indicative figure. Australian salary figures based on September 8 2006 data; Indian salary includes wages, infrastructure and technology costs.

Further support for the development of certain accounting services in Australia is that the Australian accounting industry generates \$13.9 billion in annual revenue, including \$64 million in profits (IBISWorld, 2010).

5. Conclusion: Future of offshoring to and from Australia

We conclude with a variety of perspectives on the future of offshoring to and from Australia.

5.1 Drivers of future offshoring

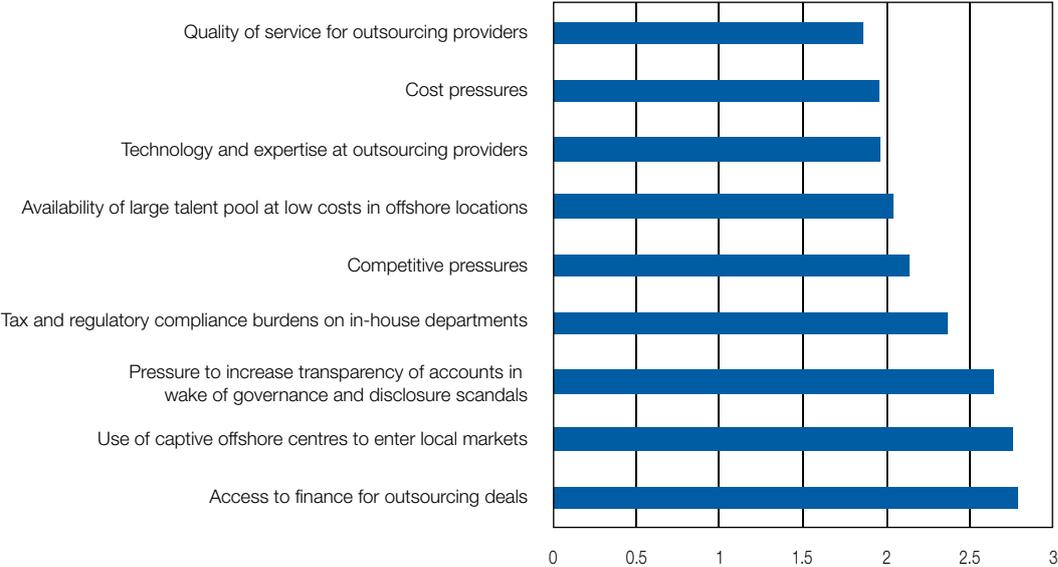
First, as depicted in Figure 12, CPA Australia members noted that the key drivers for promoting offshoring in the future are:

- access to finance for outsourcing deals
- use of captive offshore centres to enter local markets, and
- pressure to increase transparency of accounts in the wake of governance and disclosure scandals.

The drivers with the least support were:

- quality of service from outsourcing providers
- cost pressures, and
- technology and expertise at outsourcing providers.

Figure 12: Strategic drivers for promoting offshoring in the future (increasing importance where 5=very important)



These findings are similar to a survey of senior managers in the United States and Europe who identified the following drivers:

- increased cost pressure from economic and market conditions (64%)
- lower prices as more and more companies reap economies of scale by using a shared outsourcing service (60%)
- improved technology and expertise at outsourcing providers (47%)
- improved quality of service from outsourcing providers (43%)
- increasing tax and regulatory compliance burdens on in-house departments (32%)
- pressure to increase transparency of accounts in wake of governance and disclosure scandals (29%), and
- easier access to financing within companies for outsourcing deals (18%).

5.2 Towards a knowledge economy

The erosion of jobs has led many to call for a knowledge-economy strategy (D'Aveni, 2004) that involves up-skilling the workforce around truly knowledge-intensive activities and industries. New skill training can be an individual initiative or offered through company or government programs. In tandem, it has been suggested that many university degrees, including the MBA, are too 'generic' and further specialisation is needed.

The Australian government's *Skilling Australia for the Future Policy* was initiated in 2008 with the key priority "to signal to government and industry, important changes of direction required in VET services and the labour market generally, to maintain workforce participation and to grow productivity. Addressing Australia's long-term skills shortages is vital to tackling inflationary pressures" (DEST, 2010). The earlier policy entitled *Skills for the Future* provided \$837 million in support, including work-skills vouchers, mid-career apprenticeships, business skills, more university places in engineering, and other incentives aimed at developing high-level technical skills (Meredith, 2006). Australian universities have partnered with a number of institutions offshore to deliver Australian qualifications. As of 2002, there are 128 accredited professional accounting programs in 38 Australian universities (CPA, 2002).

A 2006 survey by TNS Social Research explored the drivers of skills shortages in accountancy in Australia, reporting that 72 per cent of employers believe that there is a skills shortage of qualified accountants. The skills shortage is driven by advancements in banking and finance, financial planning and international accounting standards. Despite the high number of accounting training programs in Australia and the high enrolment in these programs (due to advertising campaigns, increasing graduate salaries, perceptions that accounting is a good course of employment), there is a serious leakage of qualified and experienced accountants who seek higher rates of pay, reduced stress and greater life balance in associated careers.

To deal proactively with these and other issues, Australia's Joint Accounting Bodies (JAB; comprising CPA Australia, the National Institute of Accountants and the Institute of Chartered Accountants in Australia) outlined key needs and recommendations for the accounting profession to the Review of Australian Higher Education, including the following:

- "Given the acute and chronic shortage of trained accountants, Higher Education needs to ensure a continued supply of quality accounting graduates into the profession. To do this Higher Education needs to offer a variety of pathways to completion as well as the flexibility to enable mobility of students during their studies" (p3).
- "In response to the skill shortage, the accounting profession has implemented a number of initiatives to alleviate the shortage. At individual firm and business level, accounting employers offer more flexible working environments to encourage greater levels of participation, particularly for older employees and those returning after career breaks. Employers are also re-inventing their workplaces to increase the appeal to Generation Y by offering a varied and challenging career with the opportunity for travel." (p3).

5.3 Dealing with backlash

The offshoring of jobs has generated backlash for a variety of reasons such as consumers' concerns about the security of data abroad and workers who are concerned about losing their jobs. Individuals have developed websites to track the movement of firms' activities abroad and are actively engaged in petitioning governments and companies to retain these activities and jobs in the home country. Consumers have also expressed concerns about the 'security' of their data abroad and a dislike of dealing with foreign call centres, and these websites allow customers to find out where their data is located.

5.4 Small and medium-sized enterprises

As noted earlier, there is limited research on the current and planned offshoring by SMEs. Dossani and Kenney (2006, p39–40) concluded the following based on their research on offshoring by small firms,

"Small firms are quite aware of the dangers of globalisation to their businesses. Some are already either outsourcing to offshore locations, and a few are already establishing their own offshore subsidiaries... Today, offshoring is a fact of life.

Venture capitalists demand that entrepreneurs have thought through the reasons that they will or will not offshore. At every civil engineering convention there are representatives from small offshore outsourcing service providers offering to provide low-cost service from a developing nation. Small accounting firms are facing a similar situation as their local competitors are lowering cost by outsourcing the most routine work to offshore accountants... our anecdotal evidence suggests that it will be significant because of a continuing growth in the depth and breadth of skill levels in nations like India, and the emergence of small boutique offshoring service providers willing to provide as few as five persons offshore. The increasing frequency of offshoring lowers the barriers for followers. In 2006, there is an entire ecosystem of intermediaries including specialised executive search firms, lawyers and consultants to facilitate and simplify the offshoring process. In summary, an assumption that small firms cannot leverage offshore labour is not tenable, though at the moment there is no definitive research on the parameters of small firm participation in service offshoring."

5.5 Perspectives from stakeholders in government and industry

We conclude with thoughts from various stakeholders on the future of offshoring of finance and accounting activities from Australia:

- Former prime minister John Howard acknowledges the role of outsourcing, saying to Parliament, *"Just as this country wants the advantages of globalisation, so it should be that it must accept that part of the globalised world is a much freer flow of information"* (Zee News, 2006).
- Rob Durie, chief executive of the Australian Information Industry Association (AIIA) has been quoted as follows, *"We certainly haven't seen the same penetration of the offshoring model in Australia that we have seen in Europe and North America"* (Kotadia, 2006).
- Paul Schroder, national secretary of the Finance Sector Union, has been quoted in the *Australian Financial Review* as saying that the Organisation for Economic Co-operation and Development (OECD) believes that 80 per cent of finance jobs can be performed offshore, translating to a loss of 200,000 local jobs (Meredith, 2006).
- Sue Prestney, a spokeswoman on SMEs for the Institute of Chartered Accountants in Australia and a consultant at MGI Boyd, says *"a shortage of accountants – 'not even high-end accountants, just accountants' – means it is inevitable that some of the more mundane work will be handed out. There is also the prospect, many analysts believe, of Australia benefiting from a 'third wave' of outsourcing at the highly skilled analytical end. Now boasting lower office rents than Mumbai and cheaper accountants than London, Australia could reverse the trend of jobs flooding overseas"* (Cooper, 2006).
- *"For the accounting sector, one of the keys with any outsourcing deal will be to continue to handle relationships with clients. While accountants deal heavily with numbers, it is client advice that separates their service. Most firms that are embracing outsourcing are handing out only a small portion of their work to take some of the pressure off in the busy season"* – Charteredaccountants.com (Cooper, 2006).
- Rahoul Chowdry, partner in PwC Australia and Global Banking and Capital Markets Assurance Leader was quoted in PwC: *"Offshoring is an irreversible trend and an important strategy to help drive value for customers and shareholders alike. Australian organisations have traditionally been more circumspect than the European and US multinationals. To date they have not had the same imperatives, like geographic diversity and volume of transactions to look offshore. But the Australian market is increasingly competitive and the banks have dwindling opportunities for easy cost savings"* (PwC, 2005).
- Martin Conboy, the co-founder of FooBoo Online (FooBoo stands for Front Office Outsourcing Back Office Outsourcing), says *"The opportunity to embrace the offshore phenomenon is here and now, and until Australian business gets a better fix on the potential, we are simply missing out on a global economic trend that is already paying huge dividends to other nations"* (Fooboonline.com, 2006). Conboy also noted that Australian firms have *"poor knowledge about BPO firms in the Asia Pacific, which has created a barrier to establishing outsourcing relationships and a supply demand mismatch"* (Fooboonline.com, 2006, p1).
- *"Australia offers numerous benefits as an offshoring location, including: Stable and supportive political environment, Highly educated and productive workforce, Strong pool of ICT skills, Cost effective labour market, High standard of living and Attractive environment, climate and culture"* (ACS, 2004).

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CPA 149765 05/2010