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An instinct for growth™

Outsourcing: *Beyond technical expertise*

Grant Thornton International Business Report 2015



Introduction

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The outsourcing of back-office processes is now a well entrenched business practice at companies around the world. Approximately two out of every five businesses use it as an important means to reduce costs, improve efficiencies and, in many cases, ensure compliance.

Last year's report ([Outsourcing: driving efficiency and growth](#)) identified the main reasons why companies of different sizes and in different regions choose to outsource back-office business processes – and why they do not. This year's report, based on a survey of 2,571 business executives in 36 economies around the world, explores what companies look for in their outsourcing relationships. It also seeks to understand the reasons companies bring outsourced services back in-house.

[This report explores what companies look for in their outsourcing relationships.](#)

For companies already outsourcing, or planning to do so, the striking importance of intangible factors in making a relationship work raises new implications. Any due diligence being conducted needs to consider softer skills, and the fit from a relationships perspective, as well as the traditional procurement factors of costs and service level agreements.

For outsourcing providers, there is a clear need to invest in these intangible aspects. These can often be overlooked, but are clearly highly valued by businesses.

Finally we offer six recommendations for providers and their clients to help improve outsourcing relationships.

Key findings

- Intangible factors – such as reliability, trust and soft skills – count as much as, or more than, technical factors, such as cost and specialist capabilities, in making outsourcing relationships work. Companies that outsource cite communication as the key ingredient of a high-quality relationship between client and provider.
- Most companies that outsource services tend not to bring them back in-house. When companies do reverse course, service quality or cost are the main reasons, although for others, outsourcing was always meant to be temporary.
- For many companies, a provider's technology platforms could be a decisive factor in a decision of whether or not to outsource. Advances in digital technology more broadly are likely to give further impetus to outsourcing, particularly for smaller businesses.



2,571 business executives interviewed in 36 economies around the world

The scope of outsourcing today

Payroll and HR are the most common back-office processes to be outsourced: 34% of businesses either currently outsource these processes or plan to do so. Given that most companies outsource primarily to improve efficiencies and reduce costs (see [Outsourcing: driving efficiency and growth](#)), these processes are typically the first to be moved out-of-house as they tend to be heavily transactional. They can also be complex to execute due to some countries' extensive social funding requirements.

A smaller share (27%) of the surveyed businesses outsource, or plan to outsource, finance and accounting processes. Although such processes can be transactional, the fear of giving away control – over critical aspects of internal reporting as well as over confidential financial data – is apparent. Latin American companies, for reasons explained below, think differently in this respect: more than half of businesses in the region currently outsource finance and accounting services.

Businesses are less likely to outsource finance and accounting processes than HR and payroll.

Conventional wisdom might suggest that smaller firms are more likely to be outsourcers than larger ones, given the reduced resources

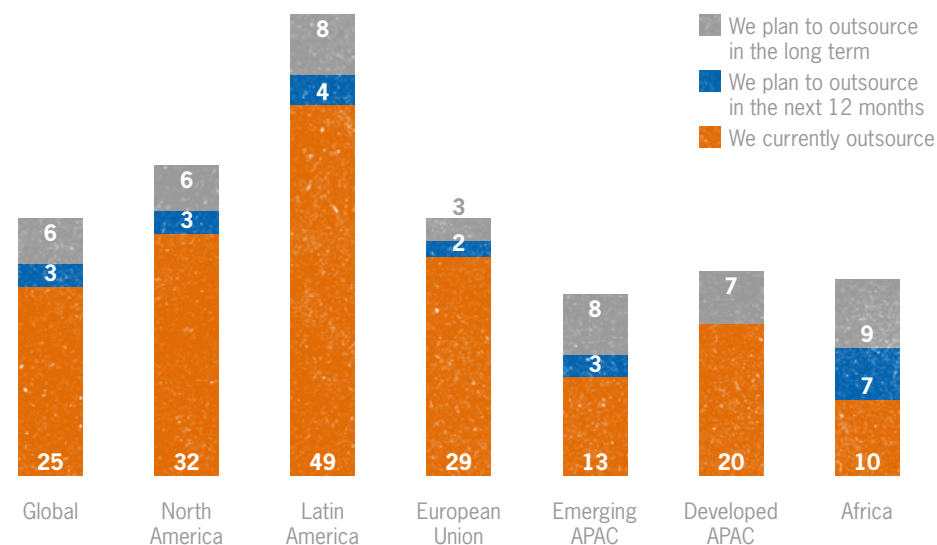
at the former's disposal. Our survey, however, shows that outsourcing of back-office processes (finance and accounting as well as payroll/HR) is equally prevalent among small and large firms¹.

Demand for outsourcing services is particularly strong in Latin America. Nearly half (49%) of respondents from the region outsource payroll and HR processes today, and another 12% plan to do so. More strikingly, 55% outsource finance and accounting processes today, with 8% having plans to do so eventually. This level of demand is not evident in other regions, where there is greater fear (justified or not) of giving away control over mission-critical finance processes.

“As productivity becomes more important to companies, and enables their employees to create value rather than execute transactions, outsourcing makes increasing sense.”

Andrew McBean
Grant Thornton Thailand

Have you ever outsourced a back-office process in your payroll and human resources department?



Source: Grant Thornton IBR 2015

¹ For the purposes of the survey, small firms are defined as those employing less than 200 people, and large firms as those employing 200 or more.

The strength of demand in Latin America underscores that tax regulation and growth in inward investment can be major drivers of outsourcing growth. In Argentina and Brazil, tough new compliance requirements – as well as the need for the appropriate technology to adapt to new regulatory requirements – are leading foreign and domestic businesses to outsource to ensure sufficiency and quality of reporting. New anti-corruption laws, and the associated requirement for audits, also mean that companies must review their internal processes to mitigate risk and to ensure smooth audit processes. New entrants from overseas face especially tough challenges in meeting the new requirements and may be more likely to turn to specialist advisors for help.

Demand is also relatively strong in southern Europe – 49% of respondents there currently or plan to outsource payroll and HR services. Within Europe as a whole, payroll/HR outsourcing is strongest in Italy (56%), the UK (45%), Spain and Finland (42% each).

Historically, Asian businesses have not outsourced much because of low labour costs and a plentiful supply of back-office workers. But salaries are rising across the region and many countries are beginning to experience talent shortages (according to IBR data, 40% of businesses across Asia Pacific cite a lack of skilled workers as a constraint on growth, compared with 30% globally). The practice of outsourcing is likely to expand in the region against this backdrop. It is already highly developed in one emerging Asian market – the Philippines, which is now rated among the top outsourcing destinations in the world.²

“In emerging markets, particularly in Asia, the availability of cheap labour has meant that companies could simply hire more accounting staff when a solution was needed. That situation is now changing.”

Andrew McBean
Grant Thornton Thailand

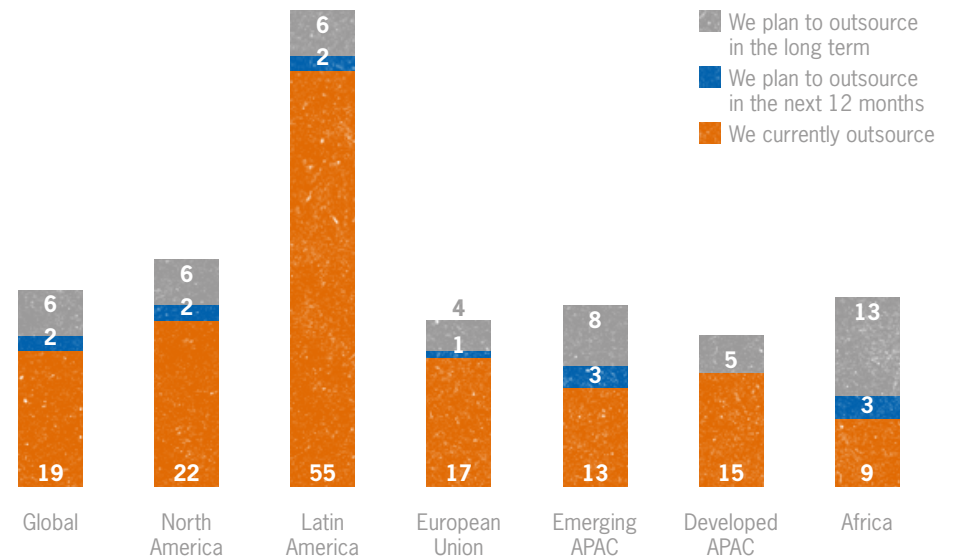
² “Manila eclipses Mumbai as services outsourcing magnet,” FT.com, 25 May 2015.

All of these shifts – rising wages in previously low-cost markets, the up-skilling and maturing of new outsourcing destinations – are changing the calculus on where companies choose to outsource to. A decade ago, the attractions of outsourcing to India, especially, was all about cost. Today, many companies realise that this is no longer the only consideration – it’s about being in a strategic location to serve your markets, accessing the right talent, and getting a good cultural fit for your needs.

“Brazil based companies increasingly outsource to improve the quality and timeliness of their tax reporting. They now face stiff penalties if they are found not compliant.”

Pier Atti
Grant Thornton Brazil

Have you ever outsourced a back-office process in your finance and accounting department?



Source: Grant Thornton IBR 2015

What companies look for in an outsourcing relationship

Outsourcing may be a well-established business practice, but even in the more mature markets, selecting a provider is not easy. In most North American and Western European countries, and some Asia Pacific ones, there is a variety of specialist providers on offer – of different sizes, with different levels of experience and using different technology platforms.

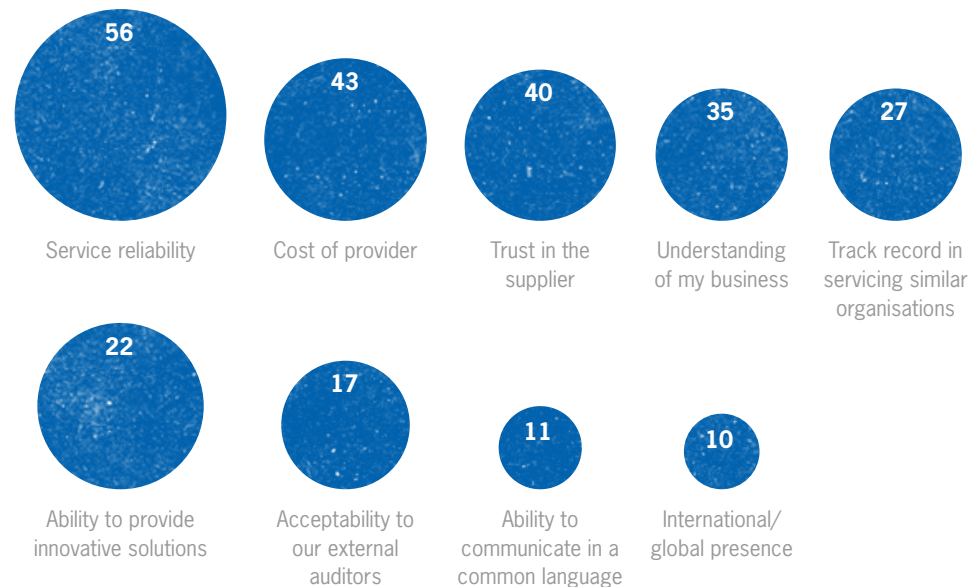
Given the prevailing focus on boosting cost-efficiency, businesses might be expected to focus on provider cost as their primary selection criterion. But our survey suggests this is not necessarily the case. Globally, reliability of service trumps other factors when companies select their outsourcing partners.

Cost naturally comes into the equation – 43% of respondents say it is an important factor – but it is more important in some regions than others. Cost is more significant for US businesses (62%) than any other factor. It is also a very important consideration in other mature outsourcing markets, such as Australia (50%), Canada (49%) and the UK (46%).

“In Asia, relationships are a vital component of the deal and trust is a key part of those relationships – they need to know you’re there for them.”

Andrew McBean
Grant Thornton Thailand

Which of the following criteria are most important when selecting an outsourcing provider? (Global)



Source: Grant Thornton IBR 2015

However, cost is well down the list of selection criteria in Latin America (23%), where outsourcing growth has been particularly strong. Responses from other emerging regions paint a similar picture: just 26% of executives in emerging Asia, and 38% in Africa, say cost is an important factor. Much more important are the provider's reliability and its understanding of the client's business. (In developed markets the latter may be considered more of a 'given'.)

Businesses everywhere want to be confident that providers will deliver on time and to the required level of quality.

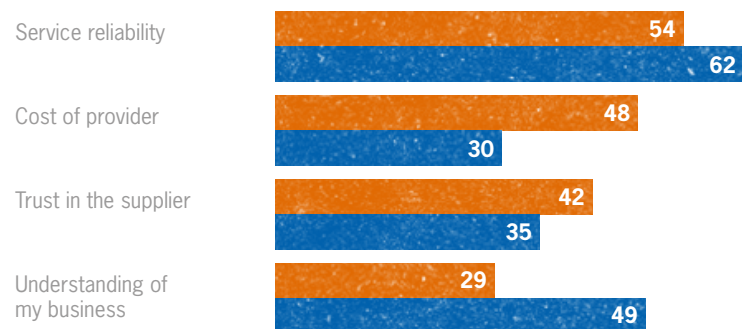
In countries such as Brazil and Argentina, companies' ability to stay compliant with ever toughening tax reporting rules depends on outsourcing. In the UK, many companies are seeking to pass the burden of tighter payroll requirements on to providers. And overseas companies that are new to local markets often look to local outsourcing providers to handle often complex payroll, tax and accounting processes.

We have seen that there is little difference between small and large businesses in terms of their preference to outsource. When it comes to provider selection criteria the differences are pronounced: small firms place more emphasis on trust, and considerably less on cost, compared to large businesses.

This reduced emphasis on cost (37% vs 49% of large firms) seems counter-intuitive given assumed price sensitivities. But many smaller firms are dependent on outsourcing providers to deliver key back-office services. In these situations, it is no surprise that cost is secondary to trust and reliability. Small firms may also have less internal capacity (and buying power) to shop around compared with larger peers.

The finding highlights an opportunity for outsourcing providers. While most remain resolutely focused on the cost of delivery, there are clear possibilities for providers to differentiate their services around a stronger trust-based relationship. This can also become the basis for more value added services to follow.

Top provider selection criteria in mature versus less mature outsourcing markets



Source: Grant Thornton IBR 2015

■ Mature markets
■ Immature markets

Note: 'Mature' markets are those where the percentage of companies which outsource payroll/HR or finance & accounting process are above the global average in the survey, and 'immature' markets are those where the percentage is below the global average.

"There is a real opportunity to educate clients on the benefits to be gained from utilising workflow management systems."

Samantha George
Grant Thornton UK

"There is a 'c-suite' of factors behind outsourcing decisions: compliance, cost and confidence."

François Pons
Grant Thornton France

Ingredients of a successful outsourcing experience

Companies that outsource expect their providers to have all the specialist skills, internal processes and IT systems needed to deliver the contracted services. However there is more than technical expertise behind any good outsourcing relationship. As in most types of relationships, non-technical skills count too.

'Intangible assets', or the soft skills a provider brings to a relationship, are more often the main contributors to a successful outsourcing experience. Communication (88%) and quality of the relationship between client and provider (87%) are viewed as the most critical ingredients in a positive outsourcing experience. The provider's experience (82%) is also a major factor. These findings seem to apply universally: the same factors are considered paramount in all regions and among outsourcers of all sizes.

Non-technical skills such as communication are critical to a good outsourcing experience.

This echoes a broader trend visible wherever talent shortages open up. Hard, specialist skills, whether in accounting or technology functions, may be readily available in a market. In the outsourcing context, sound specification scoping, resource management and project governance skills are also important attributes. All these skill categories may be becoming more standardised

among providers as outsourcing markets mature, in which case, softer skills become important differentiators.

Responsiveness is part of this equation. Nearly three-quarters (74%) of businesses say it is important that their lead outsourcing provider is able to meet with them at very short notice – within 24 hours. In higher growth outsourcing markets, such as Latin America and Southern Europe, over 40% say this type of responsiveness is "very important". In more mature outsourcing markets such as the US and UK, considerably fewer deem it very important.

For outsourcing providers, these findings highlight a shift in emphasis on the criteria that their success will be judged on. This has some clear implications. Providers need to consider how they invest in their team performance, and the skills they hire for. Furthermore, they need to think about how they position their services to clients, emphasising both the technical and non-technical merits of their approach.

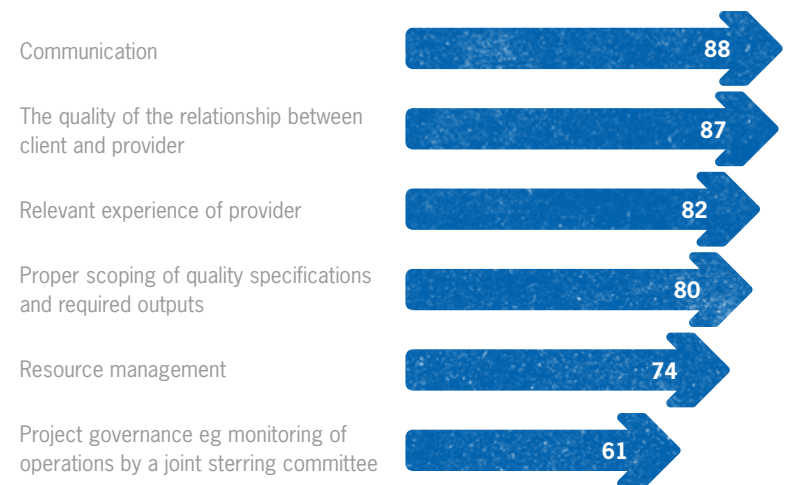
"Companies need to realise they gain rather than lose control if they outsource because they can have their providers report to them on a frequent basis. They can request real-time information."

Samantha George
Grant Thornton UK

"Frequent, face-to-face meetings are very important in Brazil. We proactively push for these, and this separates us from other outsourcing companies in the market."

Sergio Tsujioka
Grant Thornton Brazil

Which of the following do you consider to be the main drivers of a successful outsourcing experience? (Global)



Source: Grant Thornton IBR 2015

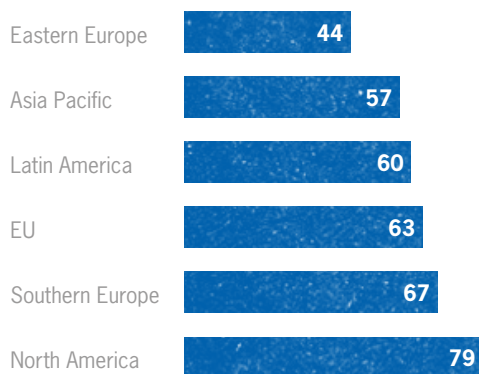
The durability of outsourcing relationships

The IBR results confirm that the majority of outsourcing contracts deliver the desired benefits to businesses. Once a business process is outsourced, it tends to stay that way.

The more mature the outsourcing market, the greater level of satisfaction outsourcing clients appear to have. Around eight in ten UK (82%) and US (80%) businesses have never brought an outsourced service back in-house. This compares favourably with the less mature markets of Latin America (60%), Asia Pacific (57%), and Eastern Europe (44%).

When companies do decide to bring processes back in-house, service quality and cost are the main reasons. The former

Share of respondents who have never brought an outsourced service back in-house



Source: Grant Thornton IBR 2015

suggests a failure by the provider to meet the needed quality or service standards. When cost is cited, it may relate to a provider's increase in fees, or perhaps a signal that changing conditions mean a process can be executed at reduced cost in-house.

"Once UK companies make their outsourcing decision and they see that it works, they don't go backwards. When a few do, it's usually after a planned review of whether or not they still need to outsource."

Samantha George
Grant Thornton UK

For others (9%) it was always their intention to bring a process back in-house. Some large companies review their outsourcing decisions every 2-3 years to determine both their level of satisfaction with their provider(s) and whether it still makes sense – for operational or strategic reasons – to continue outsourcing a given process.

The digital dimension

Except perhaps where IT outsourcing is concerned (which was not part of the 2015 research scope), technology appears not to be a critical factor in companies' decisions on whether or not to outsource.

For the majority of business leaders, the availability of advanced technology platforms, such as workflow management systems, would not encourage them to consider outsourcing back-office processes. A sizeable minority (41%), however, could find the existence of such platforms influential in their decision-making.

While enabling technology platforms are not key to current users, digital improvements will have a sizeable impact on the outsourcing landscape in the years to come. Greater connectivity and data storage capacities – thanks in part to the growth of cloud computing – will make outsourcing a realistic option for more and more companies. The same factors will make it easier for providers to offer creative solutions to their clients' business issues. And data analytics will enable clients to monitor and analyse their providers' performance in unprecedented detail.

"The digital revolution will be a major driver of outsourcing growth. Now you are able to locate your shared services cost effectively anywhere in the world."

François Pons
Grant Thornton France

As in most fields of business activity, digital advances are empowering clients to take greater control of their provider relationships. All the more important, then, that outsourcing clients feel they are benefitting from a full range of provider attributes. And of course, the same digital advances mean that switching providers will be easier than ever.

Recommendations

The IBR 2015 research findings pose clear challenges both to companies looking to outsource, or already doing so, and to outsourcing providers. Setting and meeting technical specifications is perhaps more straightforward. Taking account of the more intangible factors that help build positive relationships is considerably trickier. Below you will find six recommendations that can help establish more fruitful outsourcing experiences for all parties concerned.

Companies outsourcing

1. **Widen the scope of due diligence**

Whether companies are outsourcing for the first time or looking for a new provider, they should focus on more than simply specialist expertise when assessing a potential partner. Determining a provider's reliability, and its ability to meet the desired standards in such intangible areas as communication and responsiveness, is difficult but possible. Case studies and testimonials should be sought from providers, and the latter should facilitate discussions with one or more of their existing clients. And of course, a provider's ability to offer these could be considered a measure of its trustworthiness.

2. **Review relationships regularly**

Companies should review relationships with their outsourcing providers at least every two years. The provider's performance against the contracted quality-of-service standards should naturally be a focus, but the provider should also be assessed on account managers' communication practices, style and responsiveness, as well as its initiative in suggesting ideas for improving process execution. In review meetings, providers should be pressed to be clear on the value they've provided in these areas.

3. **Think about new metrics**

Outsourcing contracts typically commit the provider to meeting several specific levels of service. The importance of non-technical factors to the success of the relationship, means that new key performance indicators (KPIs) may need to be devised and included in agreements with providers. These might include, for example, average response times to client queries, the frequency and success rate of provider ideas for streamlining processes, and others.

Outsourcing providers

1. Build trust through transparency

Prospective clients need all the information they can get on the provider's track record. They should find it easy to access case studies and testimonials on the provider's website. The provider should also be proactive in putting forward a few existing clients (along with their contact details) who would be willing to talk about the provider's performance and service. This is the best way for a prospective client to gain a sense of performance in non-technical areas. Being forthcoming in this regard is a good way of building trust.

2. Review existing talent strategies

Professionals need to be hired who not only possess the requisite specialist skills to manage the execution of back-office processes, but also good communication and other relationship-building skills. Such individuals are not always easy to find, so providers may also need to develop in-house training programmes that help existing staff obtain these skills. Providers should also review how they incentivise account managers and staff, to improve the chances that relationship-building criteria are met.

3. Listen and learn

Communication and responsiveness should not be mechanistic. Trust is developed when clients feel their providers are listening to their issues and responding appropriately. Proactively scheduling regular status meetings with clients is a good step, but a provider should also sense when a client might welcome a reduced frequency of meetings. Likewise, proactively sending ideas and information to clients is usually constructive, but the account manager should also be wary of creating information overload for a client.

Outsourcing at Grant Thornton

Obtaining a strategic advantage

Dynamic organisations need to focus their energies on driving the business forward and outsourcing could help you achieve this. Transferring certain services to a third party not only allows you to concentrate on your core business, but it can also improve efficiency and cut costs. We also offer outsourcing consultancy services, acting as a business partner to provide tailored solutions to strategic challenges.

At Grant Thornton, outsourcing represents more than US\$250 million of our business. Whatever the size of your organisation or wherever you are in the world, we apply both reason and instinct to make sure your business is running as effectively as possible.

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IBR 2015 methodology

The Grant Thornton International Business Report (IBR) is the world's leading mid-market business survey, interviewing approximately 2,500 senior executives every quarter in listed and privately-held companies all over the world. Launched in 1992 in nine European countries, the report now surveys more than 10,000 business leaders in over 36 economies on an annual basis, providing insights on the economic and commercial issues affecting the growth prospects of companies globally.

The data in this report are drawn from 2,571 interviews with chief executive officers, managing directors, chairmen and other senior decision-makers from all industry sectors in mid-market businesses conducted in February 2015. Responses are weighted by economy GDP.

More information:

Publications: www.grantthornton.global

Methodology: www.grantthornton.global

Data: dataviztool.internationalbusinessreport.com

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