

Why Business Process Outsourcing is Relevant to Handle the New Era Problems

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Abstract: This paper presents literature review of two potential problems in the new era: (a) changes in accountant's role, (b) how accounting profession adopt into automation phase, and how business process outsourcing can contribute to the first and second variables. Current changes in accountant's roles requires shifting in the way the accounting professional do the work to manage requirement to drive efficiency, and to focus on strategic roles. Automation also brings a new a challenge to the business and requires the organization, including accountant professional, to make a strategic decision to adopt the automation to bring economic benefit into their organization. The new business model, Business process outsourcing (BPO) has been implemented in several countries for few decades. BPO approach comes with different approach such as allocating less value-added activities to business partner which resulted to additional time and free up internal resources to manage the challenges. The study results show business process outsourcing positively helps finance professional by taking less value-added activities of executive in finance, increase productivity, with cost effective approach. BPO has embarked into automation, and the review also presents the advantages of involving BPO providers as a solution to address the impact of automation in the organization.

1 INTRODUCTION

CIMA study presented the trend in accounting professionals referring to the shifting in accountants' responsibilities from traditional accounting operations to strategic management guidance and support. (Belfo and Trigo, 2013) Strategic means in the sense of ability to guide and support management to take necessary action to achieve the main goal, given scarcity of resources, or to get benefit of competitive advantage over adversaries given a set of options. (Iqbal, 2013b) The economists wrote that the market demands today's accountants evolve into providers of insight on finance, technology and strategy. Changing business practices and technologies development have transformed to accountant's role. Accountants have become increasingly required to take a hands-on approach in guiding company operations and formulating business strategy. (Unit, 2009) With the new Industrialization era, Industry 4.0, various types of works categories, particularly of those that

involve mechanically recurring and haecvay manual works, have already been automated. With continuous and significant improvement in computing power, sooner than most anticipate, the work of various professions including financial analysts, and accountants may be partly or completely automated. (Schwab, 2016) While it is broadly known that the traditional accounting model involves significant working hours to collect and process the data, which is less process oriented, the challenges lead into questions of (a) different approaches in finance organization to enable a more efficient gathering of financial and non-financial information and (b) becoming more involved in the "doing", expanding into areas with which previous generations had little or no experience. (Unit, 2009)

The study result presented in this paper is based on literatures review of the current demand in accountant's role, automation impact to accountant's work, and discuss the role of Business Process Outsourcing (BPO) to fit into the equations. The paper is organised as: first - review of current changes in accountant's role, second - impact of

automation into accountant’s work, third - BPO on how it fits in the new era problems and benefit driven through its implementation, fourth – discussion, and followed by conclusion.

2 LITERATUR REVIEW

A literature review refer to those of those article and papers that has been published by accredited scholars and researchers. (Taylor and Procter, 2008)

Changes in Accountant's role

The accounting profession has always helped to shape and support businesses, other organisations, and economies of all types and sizes. To continue to add value, professional accountants must be able to meet current needs and anticipate emerging demands. (ACCA, 2016) The Chartered Institute of Management Accountants (CIMA) and the UK’s University of Bath conducted a join survey in June 2010 major population consists of 5,426 senior finance and senior non-finance professionals around the World. The respondents of this study consisted of a various financial professionals background, from all regions of the world, with responsibilities split into six categories: accounting operations, external reporting, preparation and interpretation of management accounting information, management support, developing, implementing and maintaining management information systems, and other like staff management, training, administration, and other miscellaneous activities. (Belfo and Trigo, 2013) This wide range of responsibilities involves both transactional and strategic activities. Examples of transactional activities which normally take significant time of professional accountant which could be outsourced are as follow: Procure to pay, transaction processing, financial integrity, help desk, Record to report, asset and transaction processing, Month end closing and data integrity, financial and government reporting. (Accenture, 2010)

Recruitment firm Randstad Singapore wrote that several transactional roles such as data entry, general ledger, accounts receivable and payable would potentially be affected negatively while other higher-skill roles such as financial planning and analysis or business controlling would still have a high opportunity. (Nagarajah, 2016) The changes drive a move toward reducing the time and effort spent to look into transactional activities, and focus on and develop accounting professional into more strategic activities. Survey of Robert Half, a specialised recruitment consultancy, among 160 CFO in Australia showed the second most important expectation for finance function by 2020 is to

manage their time and resources efficiently within increasing work volume. Which triggers a need to allocate transactional activities to other party. The other finding of Robert Half survey showed finance function shall evolve from data driven (reduce the time spent on their desk - of which third party service provider could help through BPO arrangement) to data educator (spend their time walking around the office and helping drive performance). (Robert Half, 2016)

Automation impact into Accountant’s work

Automation is also threatening several jobs and could make them obsolete, for example the accountants work which identified stay in the top of the hit list. Research by Frey and Osborne in their article in 2014 published by the Economist, found that 47% of job categories are open to automation within the next two decades. Accountants and auditors ranked in the second highest in terms of risk, after telemarketers job. (Nagarajah, 2016) The change in the the accountant’s role may occur as accountants will begin to form a new role when attempting to adapt themselves to new usage and workflows resulting from the use of automation technology being implemented. (Fernandez and Aman, 2018) Consultant KPMG presented three suggested scenarios to companies in their effort to implement automations as seen in table below. (KMPG, 2018)

Table 1: Implement Automations

Scenario	Explanations	Advantages	Disadvantages
Go it alone	Create internal competency and deploy existing resources to develop and implement an automation solution, including establishing a Centre of Excellence, a governance framework and defining the new operation	<ul style="list-style-type: none"> • Create capability in-house for wider deployment. • Maintain independency and keep control of any developed IP 	<ul style="list-style-type: none"> • Budget availability • Requirement in significant commitment of resource and time. • Other initiatives are likely to have shorter pay-back period • You may not have the right expertise in-house
Get expert support	Access automation expertise, experience and proven methodologies by contracting with a consultancy to secure ongoing support for automation.	<ul style="list-style-type: none"> • Lower risk and a smoother journey than scenario one. • Quicker payback time than scenario one above. • Ability to build in-house skills for future broader deployment. • Maintain independency and keep control of any developed IP 	<ul style="list-style-type: none"> • Higher upfront costs than option one
Work with your BPO provider	Employ expert support to leverage existing contracts with the BPO company as provider and capitalise on their significant technology investments to accelerate automation.	<ul style="list-style-type: none"> • Less investment required than for options one and two. • No need to establish new working relationship with third party provider. • Quicker payback time than scenario one and two above. • Less implementation risk than with option one. 	<ul style="list-style-type: none"> • Deployment may be limited to back-office functions within BPO provider scope, if the same is not managed properly. • No or limited internal capability developed. • The companies' dependency on BPO provider for any updates and maintenance of bots.

Source: KPMG Global Business Services Advisory

Business Process Outsourcing

BPO is defined as the movement of processes or activities from inside the organization to external service providers. BPO is the delegation of the company’s processes which is considered as non-

core to an external service provider to administer and manages it accordingly. (Krstic and Kahrovic, 2015) The company non-core business process consists of: corporate governance such as legal, finance, planning, and public and government relations, accounting, building services, management, and administrative support, human resource management activities such as recruiting, hiring, training, compensating, and dismissing personnel, technology and process development such as maintenance, automation, design or redesign of equipment, hardware, software, procedures, and technical knowledge. (Brown, 2008) Outsourcing concept is not new in the modern business environment. (Vaxevanou and Konstantopoulos, 2015) Russ Banham, in his article, showed rationale for BPO efforts such as: focus on core competencies, save money, tap vendor domain expertise, focus on strategic growth, etc. (Banham, 2001) Outsourcing is a trend in the US. Several major corporations such as Dell, AIG, IBM and Citi Group have been using BPO and have leveraged the larger scale of outside service activities to gain benefit such as costs reductions, process quality improvement and improvement in response time to market requirement. (Li and Meissner, 2008) Many believe there are several American companies who paid millions of dollars to outsource their energy supply. It means paying other companies to perform a service the company previously had in-house, with goal to save money and focus on their own business. (Vestre, 2016) Procter & Gamble (P&G) showed an \$ 28 million significant saving when the company outsourced its Java Programming to Manila, Philippines, and Poland. Which is significant amount in terms of cost reduction and profit maximization. (Iqbal, 2013a) Transactional finance activities normally outsourced consists of: data entry, general ledger, accounts receivable, accounts payable, inventory reconciliation, preparation of management reporting, preparation of balance sheet, taxes, and treasury reporting.

BPO is generally complex arrangement and requires both parties, the company and service provider, to consider set of questions and analyse specific element to identify if BPO is the right option to proceed. Before moving into next step, the company needs to identify their objectives and aspiration, scope, operating model, and the right partner along with services provided. (Deloitte, 2016) In the past, companies pursued outsourcing as a means to achieve better service at lower cost. Since the outsourcing is conducted in the low-cost country or locations. Recently, many organisations are moving beyond low costs objectives to achieve step changes in their performance and new, innovative business models. Reported benefits of

BPO are: cost reduction, radical transformation, access to superior capabilities and expertise of the provider, release of capacity for remaining finance function to provide business partnering, and increased innovation. (Jim Downey and Technical Information Service, 2008).

3 DISCUSSION

BPO and Changes in Accountant's role

An important fact of BPO is its ability to free corporate executives' time from managing day-to-day process to deal with a more important management responsibility. This happen since the day-today activities are moved to the service provider to perform according to the outsourcing agreement. The study of Ohnemus showed executives normally spend their time managing everyday business and only some time on formulating strategies for a successful advancement of the company. And once a process is successfully outsourced, the executives time spending ratio can be easily reversed and as results it gives more time to explore new revenue areas, accelerate other projects and focus on customers, i.e. to concentrate on the company core competencies. Which resulted to improvement in the company's efficiency and productivity. (Ohnemus, 2010) Forbes Insight, in association with Infosys, survey results of more than 200 executives showed that executives recognized the how critical BPO in supporting their businesses. Six out of 10 respondents said that BPO plays a very important role in supporting their business model, while another third said that BPO's role was somewhat important. The trend is expected to continue positive, looking ahead three years, fully 68% of executives believe BPO's role will be very important. (Forbes, 2010) Review made by Jörg Ohnemus showed that business process outsourcing has a considerably positive and significant effect on companies' productivity, which accounts on average for a 9 percent productivity increase for companies sourcing-out their business processes to outsourcing service providers. (Ohnemus, 2010)

However, with those benefits generated from the arrangement, BPO could also pose some drawback which could affect the company if the same are not properly considered. Some of the drawback are: loss of control, outsourcing can cause disruption, risk to proprietary data, risk to innovation, risk to succession planning. (Jim Downey and Technical Information Service, 2008) To mitigate some of potential drawback such as loss of control, potential

disruptions and risk of proprietary data, both parties need to manage the BPO arrangement well, it is important to set up the right Service Level Agreement (SLA) between the service provider and the company. The SLA should define the minimum quality of service to meet the business needs, to enable the customer to monitor and control the performance of the service received from the provider, against mutually agreed standards. (CIPS, 2009) In addition, the arrangement shall consider a collaborative partnership, where benefits of business process improvements or new systems implementation are shared between the company and the provider than risk and reward sharing agreements. (Jim Downey and Technical Information Service, 2008)

BPO and Automation in Accountant's work

Outsourcing and automation works toward improvement in effort to achieve higher accuracy, productivity, efficiency and cost reduction. And they are not mutually exclusive. (Sukalp Sharma, 2017) The emergence of the 'Robotic Process Automation' term began around early 2000. The term Robotic Process Automation (RPA) though sounds like a physical robot that runs human operations, in fact, it is a computer software configuration that replaces humans in doing a task. (Fernandez and Aman, 2018) Today automation in BPO industry focuses on RPA which is built to handle structured data and standardized processes. RPA automates repetitive tasks such as invoice matching and processing by setting up advanced rules-based processes which enable improvement in accuracy and compliance. Automation also works 20 times faster than that of human, with cycle time and waiting time reduction, reduced error rates which could happen in manual tasks. (Kearney's, 2014) Other findings showed that the major impact on accountants after they implemented the automation technology is the improvement of work efficiency, reducing work routines, improving the quality of statements and management analysis, improving motivation in learning and innovation, improving IT and professional skills, and also improving competition pressure. (Fernandez and Aman, 2018)

Scenario from consultant KPMG shows how BPO can provide solution for the company to reap the benefit of automation. The company can free up from new investment requirement and can use their cash for other business opportunities, nor to provide significant resource and time. Instead, they can have the service provider to implement the automation in the company processing activities. According to

consultant Ernst and Young, by leveraging RPA in the outsourced scope outsourcing providers are often able to pass on higher productivity benefits, as high as 50% over the life of a contract. (Sukalp Sharma, 2017).

4 CONCLUSION

The study result shows positive role of BPO in the new Era problem in accounting professional work. Organization can allocate less value-added activities into business partner through contractual BPO arrangement to free up company's executive and internal sources time for more strategic activities to cope with market demand. BPO arrangement applies SLA to govern the service performance and to mitigate potential risk to the company once the BPO arrangement starts. BPO also comes as alternative solution and partner for the company to bring the benefit of automation to their process with no major concern on additional investment requirement, with potential costs saving passed back by BPO provider to the company. This study is not conclusive since the discussion focus on those two variables above, and moving forward could be expanded into broader scope to see how BPO can make impacts into other challenges financial accounting such as improvement in reporting timeliness and accuracy.

In addition, although BPO has become a new model as well industry globally, it is worthied to study the BPO practices in Finance and Accounting in Indonesia and possibility for broader implementation following comment from President of the Republic of Indonesia. Mr Joko Widodo in his remarks cited from *Majalah Online Bisnis Indonesia* dated on March 27, 2017, emphasized a huge opportunity in BPO which can explored by young entrepreneur following the trend in other country such as Philippines who managed to generate revenue of USD25 billion in a year. He also suggested for Indonesian to look into opportunities outside of those being dominated by the Philippines. In closing remarks Mr Joko Widodo emphasized that BPO industry in Indonesia looks very promising.

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