

**Finance and Accounting Business Process Outsourcing
in China**

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Abstract: <p>F&A (finance and accounting) business process outsourcing is a very popular topic globally, both in company practice and academic research. With the fast development of information technology, people could transfer data very fast to many other countries in the world than where they are. It is possible for companies to break their back-office process to many parts and spread them around the world so that they are done 24 hours a day.</p> <p>To improve the competitive capability, some pioneering enterprises started thinking about BPO (business process outsourcing). Their success has inspired more and more companies to implement F&A business process outsourcing to reduce cost or improve the efficiency. Today, in the world, F&A business process outsourcing happens almost every week. Besides cost reduction, companies also want to get value-added services and unique competitive advantages from F&A business process outsourcing.</p> <p>China is a developing country. It is in the transition from planning to marketing economy. What do Chinese companies think about F&A business process outsourcing? Do they know the advantages of it? What is the situation of F&A business process outsourcing in China? Are there any special circumstances that influence the development of F&A business process outsourcing in China? This research paper aims to answer the above questions.</p> <p>The research method is literature review and survey. Among 70 questionnaires, 62 are received. The respondents are from multi-national companies, small foreign companies, state-owned companies, joint ventures and private companies in different industries. Their points of view and experiences on F&A business process outsourcing provide valuable solutions to the questions.</p>	
Key Words: Finance and accounting outsourcing, Business Process Outsourcing, China	

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LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
BPO	Business Process Outsourcing
BPR	Business Process Restructuring
CEO	Chief Executive Office
CFO	Chief Finance Officer
CPA	Chartered Public Accountant
ERP	Enterprise Resource Planning
F&A	Finance and Accounting
GAAP	General Accepted Accounting Principle
IAS	International Accounting Standard
TES	Transaction Cost Economics

CHAPTER1. INTRODUCTION

This chapter introduces the basic information about the paper, including background, objective, methodology and structure.

1.1 Background

Outsourcing has been in business practice for more than 20 years, and also has been the interest for academic study along the way. Recently, it was even more widely spread to people's daily life, partly due to the 2005 American best selling book "The World is Flat" by Friedman (2005). This saying could be regarded as a figurative way to describe the flourish of outsourcing in the world. The fast development of information technology at the end of last century has made it possible for companies to outsource some of their operational functions to the 3rd parties around the world. Outsourcing has started to affect almost everyone's daily work in the developed world.

Business process outsourcing (BPO) is one area of outsourcing that mainly refers to outsourcing the companies' back-office functions. Since British Petroleum (BP) has started his BPO in 1990s and benefited a lot from it in the following years, more and more CFOs and Executives have started this journey (Clements, Donnellan and Read, 2004). Now, the finance and accounting (F&A) business process outsourcing cases are happening almost every week.

1.2 Statement of Problem

The F&A business process outsourcing has been a global phenomenon for some time. Many multi-national companies have benefited from their F&A outsourcing through either cost reduction or business transformation. However, most of the companies are still questioning the feasibility and practicality of F&A business process outsourcing. They doubted what F&A business process outsourcing really means and how they can implement and benefit from it.

China, with one fifth of the world population, has been developing very fast since its economy reform in 1978. The entry to WTO, the host of 2008 Olympic Games, and so on, shows that China has started to play a very important role in the global economic market. Many economists even said that the 21 century is the century of CHINA. Thus it is very interesting to study the situation of F&A business process outsourcing in China.

1.3 Research objective

There are two objectives of this research.

First, it aims to figure out what kinds of companies are suitable for F&A business process outsourcing globally and in China, which F&A functions are suitable to be outsourced, and what are the success factors of F&A business process outsourcing globally and in China. The viewpoints mainly come from the academic papers for global situation and questionnaires for China, and will be empirically tested by this research.

Second, the research aims to find out if there are any special factors and circumstances in China that have both positive and negative influences on the F&A business process outsourcing.

1.4 Empirical method and limitation of the study

This empirical part of the study is using survey and interview. Data has been collected by the questionnaires from people who are doing finance and accounting jobs or executives/managers of other functions. Some respondents have also joined the interviews to further present their experiences and understandings on F&A business process outsourcing.

All together, 70 questionnaires have been sent out. To get the feedback as much as possible, the author called most of the potential respondents in person and explained the aim of the questionnaire. If there is no reply after some days, the author sent the kind reminder to them again. With these efforts, the return rate of the survey is very high. Totally 62 responses have been collected! The return rate is 88.6%.

Although the return rate is high, the survey is conducted only in Beijing and Shanghai so that the survey scope is not broad enough to draw an impartial conclusion with respect to the huge population and the large numbers of companies in China. Limited time and budget do not permit us to do broader investigations in other cities of China by the time this research is launched. Since Beijing and Shanghai are the political and economical centers in China, the author believes that the survey is still valuable to the research objective.

This paper only discusses how Chinese people and Chinese companies view F&A business process outsourcing. China as a source of outsourcing provider in F&A is

not in the research scope.

1.5 Structure of the paper

The paper consists of theoretical and empirical parts.

The first chapter introduces the background and the objective of the study.

The second chapter is the introduction of outsourcing. It covers the accelerating factors and the evolution of outsourcing from both information technology and political & economical side. The payoffs and pitfalls of outsourcing are also discussed according to previous studies and research.

The third chapter mainly discusses the finance and accounting business process outsourcing, including the purpose of F&A business process outsourcing, the advantages, the contents, how to choose the service providers and the success factors of F&A business process outsourcing.

The fourth chapter briefly introduces the current situation of F&A business process outsourcing in China.

The empirical part starts from chapter five in which the research method is discussed and research hypotheses are presented. The survey and interview method is used for this study. At the end, the background information of survey respondents is introduced.

The sixth chapter discussed and presents the results of the research. Besides the general findings on F&A business process outsourcing situation in China, the research result to the hypotheses are also discussed.

The last chapter summarizes the topics of future research.

CHAPTER2. UNDERSTANDING OUTSOURCING

2.1 Objective and structure of this chapter

This chapter introduces outsourcing and its development. First, five important phases of the evolution of outsourcing are described. Then, four types of outsourcing are introduced, namely near-shore outsourcing, onshore outsourcing, off-shore outsourcing and in-sourcing. Finally, the payoffs and pitfalls of outsourcing are discussed.

2.2 The meaning of outsourcing

Simply speaking, outsourcing means that some work of a company is done by people that are not the company's full-time employees. With the outsourcing agreement between two companies, one company provides services to another company. The services could also be done and usually have been done by the second company in-house (CIO definitions, 2005). Outsourcing is actually a management pattern that a company utilizes and combines the specialized resources of outside agents (Lam and Han, 2005). It can also be regarded as a predetermined external service provision by the 3rd company to deliver some goods or services that have previously been provided in-house (Finlay and King, 1999).

Currently in the world, especially in the information technology industries, outsourcing has become very common. As managers and executives are trying to reduce operating costs in current tough business environment, outsourcing has become a more and more common strategy in many sectors. The main purpose of outsourcing is to reduce operating costs, improve the efficiency, increase revenues and reduce risks.

Outsourcing ranges from very big contracts to tiny practices. For example, some companies outsource their whole IT services or accounting processes to the third professional companies, like IBM and PWC, and some companies every now and then hire temporary staffs or contractors for a certain task.

2.3 The evolution of outsourcing

In Friedman's best-selling book, *The World is Flat* (2005), Friedman pointed out ten forces, or we can say events, which flattened the world. Some of the forces can just be regarded as the important phases of outsourcing evolution. We will briefly

introduce some of them in the following.

2.3.1 PC-based computing platform

- People are connected to their computers, the Windows 3.0 came out on May 22, 1990, and the Berlin Wall fell down on November 11, 1989.

In early 1980s, communication technology has been developed very well with the spread of telephones, fax machines and so on. The information revolution began at this time. In 1981, the first IBM PC went to market, and Internet and Email came out soon. The Spreadsheet and Word process increased the diffusion of PCs. With the need of a tool to make all the above useable and programmable, in 1985, the first version of Windows operating system was launched, followed with the launch of the breakthrough version Windows 3.0 on May 22, 1990 that made PCs much more user-friendly.

Meanwhile, the standardized tools for communication also spread out, like dial-up modems and the global phone network. People started to realize that they can do so much on this information platform.

At the same time, to certain degree, as the result of information spread from western to eastern, big changes also happened politically and economically.

The cold war between the United States and the Soviet Union, also the war between market and planning economic systems, brought Soviet Union's communism to the end. In November 11, 1989, the Berlin Wall fell down that cleared the obstacle between the democratic free-market-oriented economy and the centrally planned economy. The incident not only influenced Russians and Germans much, but also had positive effect on Asia, the Middle East, Africa and Latin America. For example, India started its economy reform in 1991 that enabled its faster economic growth.

The information revolution and free economy gave people chance to adopt common standards, like the method of making PCs, doing accountings, managing companies, and so on. More and more people started to feel they are part of the global economy and their daily lives are affected by globalization.

2.3.2 Internet-based platform

- Totally interconnected and inter-operationable, people connect to people, people

connect to their own applications, standards of data transportation came out, Netscape went public on August 9, 1995.

In the late 1980s and early 1990s, the appearance of open Internet protocols started to make everyone's email system and computer network connected with each other. TCP/IP was the basic platform of the Internet on which other applications was built and transferred.

FTP (file transfer protocol) could move files. SMTP and POP could transfer e-mails from different e-mail systems. HTML was a language that was simple for most of the people to edit his or her own web p. HTTP could move HTML documents around that enabled people to view World Wide Web. SSL can guarantee the security of data transformation on Web.

Netscape was founded in mid-1994 with the original name Mosaic. The first Web browser was also called Mosaic that had only twelve users. In December 1994, Netscape released its first commercial browser and it rapidly dominated the market within only a year. With its browser and other software products, Netscape helped to guarantee the publication of those open protocols and open standards, and finally led to the seamless integration of Internet computing platform in late 1990s. At that time, Microsoft's Windows operating system had dominated market. Microsoft combined its browser, Internet Explorer, with its Windows and finally seized Netscape's market.

The integrated Internet by Netscape enabled the connection of more and more people from different PCs and systems, which resulted to the boom of digitalization and Internet boom. The Internet boom also intrigued the fiber-optic cable companies to lay quite much fiber-optic cable both under lands and the oceans so that larger digital files could be transferred faster. The investment made the cost of transmission much lower.

The result of the this phase is that there came to be a standard way to transport words, music and pictures, namely, they can be digitalized and transported through Internet. Email and browsing became more and more popular.

2.3.3 Work flow software

– Applications connect to applications; standards to make work flow came out.

The above two phases made it possible for people to transport message, email, words, pictures, music and so on via Internet. Then people would like to do more

things, like selling something, buying something, paying bills, designing products, or even managing their companies. Thus more programmers started to write more and more software applications, and there came more transmissions protocols to connect everyone's software applications to everyone else's software applications.

For example, XML (Extensible Markup Language) is a flexible tool to create some information formats in common that could be shared through Internet or World Wide Web (SearchWebServices.com). SOAP (Simple Object Access Protocol) is another tool to communicate two programs, one of which is running in one kind of operating system, like Windows, while the other is one another kind of operating system, like Linux. The communication is using HTTP and XML as the mechanisms via World Wide Web (SearchWebServices.com).

2.3.4 Open-sourcing

With the above technologies, new standards came out that enabled the flow of work. People can do some business work together. They made it possible for the work to be broken into pieces, reassembled, and partially done by most efficient producers, and finally integrated seamlessly. Outsourcing came into being at this point.

Open-source is a kind of peer-review science. It is a program that you may download for free even with the source code together. You may add patch to it to improve it and then make it public to people. Apache and Linux are the most important milestones during this phase.

2.3.5 Y2K computer crisis triggered the outsourcing to India

The real outsourcing started from Y2K computer crisis, namely millennium bug. The reason of Y2K bug is that each computer has its internal clock when it was created. In early period, to save memory space, the clock was created and showed date with only six digits, like 12/31/99, representing month, day and year. When Jan 01, 2000 came, the calendar of the computer will show the date as 01/01/00, instead of 01/01/2000, by which the system will think of it as 01/01/1900. This has a very big impact on global management system because the timing in the system will be in the mess from Jan 01, 2000. Thus it is very necessary to remedy those computers, which obviously is a very huge and tedious job.

India is a very important factor in outsourcing development and nobody could ignore it when talking about outsourcing. India is an Asian country with very limited natural resources. The bad natural situation and big number of population

inspired Indians to develop their education very well. The first Indian Institutes of Technology (IIT) was founded in 1951 by India's first Prime Minister, Jawaharlal Nehru, followed with the foundation of the other six Technology Institutes. The education quality is as good as, or even better than, that of US colleges because of the Technology Institutes' high requirement of the recruitment and the hard studying load to the students. As the result, India educated huge number of excellent professionals in science, computer and technology. Some of them went to the United States to pursue good jobs, while most of the rest have to stay in India where there are not so many good jobs as they want.

We have to mention another factor that make the outsourcing of Y2K to India possible, that is what we have mentioned in the above phases, the overinvestment of fiber-optic cables. Although the overinvestment of fiber-optic cables and the Internet bubble burst led to the bankruptcy of many companies, it did connected the world much better than any other innovations in the past, like railway and electricity. Large number of fiber-optic cables in the ocean connected India and America closely. Any work that can be transmitted by Internet can now be done in either America or India.

Y2K crisis needed tremendous professionals to remedy it in a short period, while there was no such big number of people available in America. So it is natural for Americans to think about India at once at this moment. The successful solution to Y2K crisis by India also brought India more chances of outsourcing.

2.3.6 China joined WTO

- China opened the market to the world, which speeded up the global off-shoring.

Off-shoring mainly refers to moving one or several of a company's factories to another country where there is lower-cost labor and lower taxes.

China started economy reform from 1977 under the guidance of Deng Xiaoping. The successful transition from planning economy to marketing economy brought fast economy growth for China in the last 20 years of the last century. Before that, China was closed to the world, the result of which was that people inside the country had very little idea about the rest of the world and the people in the world had little information about the country either. The appearance of Internet bridged this information gap. People in China can be connected to the world even without the need of any trip.

In December 11, 2001, China joined the World Trade Organization (WTO). From

then on, China would follow the same global rules on foreign investment, importing and exporting. Foreign companies in China could be protected by the global standard business practices and international laws. They also could be treated equally as Chinese companies using the same Chinese laws. Thus it became easier for foreign companies to invest in China and do business in China.

2.4 Four types of outsourcing

There are four kinds of outsourcing, namely near-shore outsourcing, onshore outsourcing, off-shore outsourcing and in-sourcing.

2.4.1 Near-shore outsourcing

Near-shore outsourcing means that some of the company's work is done by people in the countries of neighborhood instead of being done in its own country. For example, many companies in the United States outsource their work to its neighboring countries, like Mexico and Canada. The advantage of near-shore outsourcing is that geographic proximity makes the travels easier and cheaper, and similar cultures and common languages make the communications easier and better. (CIO definitions, 2003)

2.4.2 On-shore outsourcing

On-shore outsourcing is also called domestic outsourcing. It means that work or service of the company is done by another company in the same country. (CIO definitions, 2005)

2.4.3 Offshore outsourcing

Offshore outsourcing means to outsource the work from some developed countries to the areas of the world, normally developing countries, where the labor cost is much lower or tax savings is available. It is a type of business process outsourcing (BPO) and the outsourced work or service is normally IT-related. Offshore refers to "any country other than your own". What makes the offshore possible is the appearance of Internet and the high-speed broad-band connections between them, which has been introduced above. It seems that any IT-related work can be handled anywhere in the world. Offshore outsourcing not only can save the cost, but also can improve the company's competition ability in other countries. (CIO definition, 2004)

There are always different opinions on something in developing stage. Same thing

happens to offshore outsourcing. The proponents of offshore outsourcing think that the niche professional service by the overseas 3rd party providers will highly improve the efficiency of the company and save the operational cost that could make the company to focus more on its core business and increase its competition ability. While opponents worry that too-much outsourcing will lead to the dry up of the in-house talent. They think that it is hard for a company to reverse their overseas outsourcing to in-house again. If doing so, they always need to pay much more than former in-house services. By the year 2004, there is around 40% IT-related business that has been outsourced overseas or is under investigating on the possibility of offshore outsourcing. The number will climb up to more than 70% till 2008. (CIO definition, 2004)

2.4.4 In-sourcing

In-sourcing was mentioned by Friedman in his book “the World is flat” (2005). It is actually a special type of outsourcing. It means that companies outsource their whole logistic process or main part of the supporting process to third-parties that will go into the companies to understand their business and then create efficient processes for it.

The typical and successful example of in-sourcing is UPS. UPS’ original and main business is delivery. With the increasing requirement of its customers, UPS has expanded its business to broader areas. For example, in the past, Toshiba’s warranty services was completed by shipping the broken machine from the customer to the factory of Toshiba, repairing in the factory and then shipping back the repaired machine from factory to the customer by UPS. Since the customers are located in any corner of the world, while the factory of Toshiba could not be anywhere, the time spent on the shipping is quite long. To shorten the shipping time, as well to save the shipping cost, UPS cooperated with Toshiba to set up its own repairing sectors worldwide. Of course, the repairing workers are all qualified Toshiba-trained workers who can fix the problem in similar skill level as Toshiba’s employees. Thus, the machine can be repaired locally without the need to ship it back and forth, which shorten the total return time for customers and reduce the cost tremendously, and customers’ satisfactions improved.

In short, some business processes, like supply-chain, are very important for companies. But not every company can afford to invest enough money and staff to develop its own efficient supply chain. Or they think the logistic part is not the core business and they would like to invest more on core business like research or design. Thus in-sourcing solved this problem. Companies can ask the help from UPS who will be involved in depth of their business and even their suppliers’ business.

In-sourcing is not simply the supply chain. This kind of supply chain is managed by the third party, which needs the close cooperation and trust between UPS and its clients. Cited from Friedman, “The UPS people are not just synchronizing your packages-they are synchronizing your whole company and its interaction with both customers and suppliers.”

The four types of outsourcing mentioned above are similar to the four maturation stages of outsourcing proposed by Carmel and Agarwal (2002):

- a. To outsource only domestically.
- b. To outsource one or two projects to merely cut costs. In this stage, companies just pay the fee for a certain kind of service (“fee for service”) and there is no need to coordinate different functions within the companies.
- c. In this stage, companies have had the capability to handle the relationship with their outsourcing partners and furthermore they outsource their more non-core activities to off-shore partners.
- d. The relationship with the outsourcing partner develops to strategic alliance. Companies and the outsourcing partners could finally set up a dedicated off-shore delivery center or set up the wholly owned captive center that could provide services to both the company itself globally and also other companies that need the service. In this stage, the service center turned to be the value-added center.

2.5 The advantages / motivations and potential negative impact of outsourcing

Studies show that there are many advantages that outsourcing could bring, that are also the motivations of outsourcing.

- a. The key reason for outsourcing is to generate cost efficiencies (Quinn and Hilmer, 1994). Outside service providers could provide similar or even better services at lower cost than what is previously provided in-house (Barthelemy and Dominique, 2004). Cost efficiencies are normally achieved by wage differentials (Bhalla, Sodhi and Son, 2007). For example, IT workers’ hourly rates in Asia are reported to be from 30% to 75% lower than that in the United States, which may created around 50% savings by off-shoring outsourcing (Pfannenstain and Tsai, 2004). The relative salary schedule by country provided

by Hoffman and Thibodeau in 2004 could demonstrate the big cost saving opportunities from off-shore outsourcing: the average programmer salary annually in 2004 is \$7500 in India, \$7550 in China, \$10,000 in Russia, \$20,500 in Mexico, \$30,950 in Singapore and \$65,000 in U.S. Olson (2006) mentioned that over some years, China will overcome its current language barriers and develop enough skills to take much work from India.

- b. To outsource or even offshore the non-core activities to specialist vendors may speed the company's innovation so that the company could gain related benefits at lower cost (Quinn, 2000). Kakabadse and Kakabadse (2000) also mentioned that innovation is one of the main reasons for outsourcing. "The improvements in quality through innovation and the development of new service products can lead to new demands". Bendor-Samuel, (1998) asserts that outsourcing providers have the special power that is not available inside the companies. They have the access to expensive technology and expertise in processing.
- c. Outside expertise service providers normally could provide the way to respond to environmental uncertainty without the additional cost (D'Aveni and Ravenscraft, 1994). Abraham and Taylor (1993) also mentioned that outsourcing could transfer the demand uncertainty to the outside service provider.
- d. Outsourcing could provide more capacity of flexibility for companies, especially in the purchase of fashion goods, fast developing new technologies, and excellent process (Harrison, 1994). If a company buys high technology by itself, the cost is very high and it is very hard for the company to switch to another technology rapidly due to high cost. But the network of the service providers could adjust the scope and scale of their production capability upward or downward more rapidly at lower cost according to the changing demand conditions. Thus outsourcing provides the company with more flexibility.

There are also studies showing pitfalls of outsourcing.

- a. Opponents on outsourcing argue that many companies used outsourcing to reduce operating costs in only short term, while they do not treated it as a long-term strategy for development (Londale and Cox, 1997, Gilley and Rasheed, 2000). According to Domberger (1998), sometimes outsourcing could not actually reduce costs but increase it occasionally.
- b. In addition, opponents also argue that too much reliance on outsourcing might influence the companies' ability to innovate (Chesbrough and Teece, 2002). In the long run, companies might lose the capabilities on research and

development for product and process innovation (Kotabe, 1992).

- c. Some researchers think that the evidence on the value of outsourcing is not so clear and some outsourcing contracts might fail since it is hard to verify the outcomes (Snir and Hitt, 2000).
- d. Poaching might be the most serious problem that outsourcing brings (Clemons and Hitt, 2000). Poaching means to misappropriate the information from the company by the outsourcing vendor. Since information technology and innovations are not physical assets, it is always hard to prevent the misappropriation during the outsourcing. According to Lei (2006), outsourcing sometimes may unwittingly lead to the company's dangerous dependence on the partner. If the strategic alliance with the partner cannot be managed well, it is easy for the partner to gain the company's core knowledge and technology.
- e. Outsourcing may directly lead to the redundancies of employments and thus the layoffs, which usually bring internal fear and employee resistance (Mishra and Mishra, 1994, Domberger, 1998). In this case, organizational culture might be influenced and the collaboration between the company and the service provider might be impacted. The culture clashes between the company and the service provider are usually regarded as a factor leading to the failure of outsourcing (Goolsby, 2001). While other researchers think that from the long-term, outsourcing maybe bring more jobs instead of tremendous loss of jobs (White, 2001). Just like the beginning period of industrial revolution, people all thought they would lose jobs. The facts are that new jobs were created because people are always needed to operate and control the automated processed and machines.

When doing study on outsourcing, many researchers use the theory of Transaction Cost of Economy (TCE) as the framework. From economic view, whether to outsource a certain activity or not depends on the relative cost and risk associated with operations inside and outside. TCE could explain this economic phenomenon well. TCE usually focuses on transaction frequency that is regarded as the number of transactions. Since the number of transactions has direct impact on total cost of transactions, more transactions means more costs (Maltz, 1994). According to TCE, outsourcing could be a good way to control the cost when the number of transactions increases.

Ellram, Tate and Bilington (2007) utilized TCE framework to study how companies manage the costs and risks of offshore outsourcing of professional services. By interviewing high-ranking procurement professionals from 8 Fortune 500 companies, they found that companies would like to offshore outsource processes

with large volume transactions and think small volume processes “uneconomic”. The more uncertain the company is about its requirements, the less likely the processes are to be outsourced. Specifically, companies would like to reduce risks and uncertainties before engaging in the outsourcing. Companies should understand and carefully consider outsourcing so as to reduce its risk. Outsourcing services may create different kinds of risks than outsourcing direct materials, which needs very different business controls.

Nicholson, Jones and Espenlaub (2006) use transaction cost and management control theory as the framework to study the offshore outsourcing by the case study of two Indian vendors. According to Nooteboom (1992), a transaction is the event that occurs during three stages: contact, contract and control. Both clients and vendors face different kinds of transaction costs during each stage. At contact stage, clients have searching costs and vendors have marketing cost. Intermediaries, standards and legal presence of vendors are important features in this stage. At contract stage, both parties have the costs for preparing the agreement and settling possible issues. To limit transaction costs in this stage, companies can use build-operate-transfer arrangements, international arbitration, contract clauses and unique incentives offered by labor-cost arbitrage across countries. At control stage, costs occur for data protection and so on. Spekle (2001) indicates machine control for highly specific activities and boundary control in dealing with high levels of uncertainty.

2.6 Summary

In this chapter, the meaning of outsourcing is introduced and four types of outsourcing are discussed that include near-shore, on-shore, off-shore outsourcing and in-sourcing. Some important stages of outsourcing revolution are described so that readers could understand that both technology development and economy & politics development create the circumstance and possibilities for the outsourcing. The payoffs and pitfalls of outsourcing are discussed based on the literature review. In the next chapter, finance and accounting business process outsourcing will be discussed.

CHAPTER3. F&A BUSINESS PROCESS OUTSOURCING

3.1 Objective and structure of this chapter

This chapter discusses in detail about F&A business process outsourcing. First, it introduces the meaning of F&A business process outsourcing and its driving forces. Then the advantage of F&A outsourcing is discussed. Third, it introduces what could be outsourced and what could not. Since the service providers are very important, fourthly, the chapter introduces different relations with the service providers and how to choose a good provider. Finally, the success factors of F&A outsourcing are discussed.

3.2 The meaning of F&A business process outsourcing

According to Clements, Donnellan and Read (2004), more and more companies are choosing to outsource their F&A functions to external partners. More and more CFO and finance directors think their F&A outsourcing is successful.

Finance and accounting outsourcing is a part of business process outsourcing (BPO) that started from early 1990s with British Petroleum (BP)'s pioneering action, and followed by many leading-edge companies. Quoted from Clements (2004), "BPO, distinct from pure commodity-based outsourcing, means to contract with an external organization to take responsibility for providing part or all of a business process or function". In other words, BPO is an advanced type of Information System (IS) outsourcing, meaning that external service providers take the responsibilities for providing a business process, including technology, human resource management and so on (Williamson, 1991). BPO is used not only to save cost, but is also regarded, by more and more companies, as a tool to transform their business, enhance overall corporate performance and achieve market leadership.

F&A business process outsourcing means to outsource some or all of the functions of F&A work to the third party service providers. The outsourcing functions could range from simple operational activities, such as payroll, account payable, account receivable, to more complicated professional functions, like taxation, financial reporting, or even management reporting, and so on.

As discussed above, the rapid development of information technology makes F&A business process outsourcing possible. F&A business process outsourcing has been

developed for many years in the world and it has big share of the whole outsourcing market. According to the market research report “2003-2008 marketing analysis and forecast on finance and accounting process outsourcing”, by The Yankee Group, a famous American marketing research company, from 2003 to 2008, the global F&A outsourcing market will grow more than 10% year over year. Nowadays, there is new F&A business process outsourcing deal implemented every week in the world.

3.3 Why and how could we outsource the F&A Functions?

There are different reasons and motivations for companies to outsource their F&A functions. Some aims for cost reduction, some for efficiency improvement, and others for risk control, and so on. The main driving forces of F&A business process outsourcing could be summarized as below.

3.3.1 Finance and accounting has been expanding its role from bookkeeping only to decision making (Drury, 2000)

In the past, the major requirements for finance and accounting have been to provide accurate and timely financial data. With the increasing global competition, finance is required to provide valuable information for business decision-making. To provide much insight and support for business decision-making, CFOs have to be released from the heavy routine daily transaction processing and bookkeeping. More and more companies have implemented ERP system that normally requires business processing reorganization. It is always very important for CFOs to think how to simplify and standardize their business processes and systems.

CFO has become the hub to manage the value of extended enterprise (Read, 2001). Finance function has been fragmented, and book keeping and transaction processing has become the tiny part of the whole function.

3.3.2 More strict accounting standards, principles and regulations were publicized.

With the disclosure of business scandals like the Enron and WorldCom, there was public confidence erosion for company financial practice and data. All parties, including publicities, governments, investors, regulators, are asking for the accurate data and the companies' transparency and integrity. Scrutinizes from different parties, like regulatory bodies and financial markets, sharply increased, which

magnified the details of companies' financial and operating performance. Finance and accounting not only has to adherence to public accounting principles, reveal the true business information and changes to stakeholders and investors, it is also necessary to disclose to the public how and why the business changes happened.

3.3.3 Global competition urges companies to find ways to reduce their cost and operating expenses.

Today, global competition increases sharply. Companies are trying their best to reduce cost and improve the efficiency to remain competitive. Some large-sized companies set up a central shared service centers to provide unified service to all of their branches in different locations. Due to the high cost to maintain the shared service centers, some in-house shared service centers have been replaced by the 3rd party professional service providers who have a network of centers to provide comprehensive services to the clients with sophisticated organization structures. By this way, the management cost decreased.

3.3.4 F&A business process outsourcing as a Human Resource strategy and as an IT strategy

White (2001) states that F&A outsourcing is Human Resource strategy, Manpower is always crucial for a company to compete with others. To win the war for talent, companies should provide career paths to the employees rather than only the positions. With the limited availability of qualified labors, companies who could not find enough experts in-house turn to a qualified external partner. The qualified external partner not only could provide enough staff to handle the accounting of the company, but also have a capability to engage its in-house financial staff in the process and take the responsibility of all future human resource management.

White (2001) also states that F&A outsourcing is IT strategy. New accounting software and applications are debuting faster and faster. It is harder and harder for a company to chase the fast development of information technology to ensure that the company is using the most efficient tool in the market. Thus it is natural for the company to find a world-class partner who could provide the world-class systems and processes. As indicated by Tom, "Significant technology investment on an ongoing basis is a key value-added benefit that outsourcing partners bring to their clients worldwide."

Historically, the decisions on F&A business process outsourcing are normally made primarily on cost basis. Now, it is more and more necessary for managers to

consider wider range of factors both internally and environmentally. Yang, Kim, Nam and Min (2006) develop a decision model for business process outsourcing that could not only assist executives to make better decision on their business process outsourcing, but also help them to get the biggest benefits from BPO. They define the BPO determinants in three categories, namely expectation, risk and environment, each of which contain several factors.

The first determinant is on expectation perspective that includes three factors, cost saving; focus on core competence and flexibility. Cost saving is the basic target that companies pursue by outsourcing. Core competence refers to intellectually based activities of systems that the company performs better than any other companies in the market. By business process outsourcing, the company could get the best-in-class service and process from outside partners. Flexibility is a requirement to service providers that enable them to quickly respond to customers' need and satisfy the clients' expectations.

The second determinant is on risk perspective that includes four factors, information security, loss of management control, the labor union, and the morale problem. Information security is a serious issue since information is shared to the company and the service provider. Good alliance between the company and the service provider is crucial to the information security, or bad management control on the service provider may occur. Labor union normally exists in the company. Since BPO normally brings the redundancies and layoffs, the employee morale might be badly influenced.

The third determinant is on environment perspective that includes three factors, vendor's quality, market maturity, and other companies' outsourcing decisions. Market maturity is normally explained via market contestability. In a contestable market, while only a few providers could provide the service now, many other providers are intending to provide the service if the price paid by the client company is higher than the average cost of the providers. Good quality of service an important success factor of outsourcing. Whether the BPO market is mature enough to be chosen as a management tool or not has big impact on a company's decision of BPO adoption.

Yang, Kim, Nam and Min (2006) conclude that managers who are considering doing BPO should clearly understand its payoffs and pitfalls and weigh the BPO decision very carefully, and they need to have a very clear picture about the nature of BPO. The service providers should also understand the factors that affect the companies' decision. They need to improve their service quality at their best because the service quality plays a very important role in the decision model for BPO.

3.4 The advantages of F&A business process outsourcing

With a successful F&A business process outsourcing, companies could get incredibly good result. The advantages of F&A business process outsourcing could be summarized as below.

3.4.1 Reducing capital investment and cost is the major benefit of outsourcing.

To outsource the company's non-core operations to niche professional providers who can offer best practices could save cost radically. The cost saving normally comes from the reduction of head count.

3.4.2 Improve enterprise management quality, internal control, and the transparency of finance.

To achieve certain performance goals, it is likely for some managers, or even CEOs and CFOs, to give unreasonable instructions to the F&A functions to manipulate the finance data. F&A business process outsourcing creates a healthy separation between managers and accountants.

3.4.3 F&A business process outsourcing enable companies to focus on their main business and increase the innovation.

To outsource the non-core processes to partners can release the company from the non-differentiated internal activities so that the company could focus more on its core business and innovations.

3.4.4 The company could grow by partnering with professional outsourcing parties.

Outsourcing is not only just service provision, but also about partnership. The good and long-term strategic relationships with service providers could benefit the company very well via the partners' investment of their enriched expertise and resources.

The outsourcing partners normally could provide more professional services that could improve the efficiency of F&A function. For example, the efficient

management of account receivable by the 3rd party professional service provider could improve the company's cash flow.

3.5 What could be outsourced and what could not be outsourced

To start an outsourcing case, a company's CFO normally needs to sit down and talks with CEO to define what are the distinctive industry core competencies for the company that could differentiate it from the competitors. Activities about those core competencies are important for the company, and the rest could be the candidates for outsourcing. For example, for a manufacturing company, the research and technology might be the core competence. While for a consumer retail company, the supply chain management might be the core competence.

British Petroleum (BP) is the pioneer in F&A outsourcing. Sited from Alan Eilles, BP's global vice president in charge of F&A outsourcing: "any F&A decisions involving interpretation, policy or judgment are retained inside. Anything else is a potential outsourcing candidate." (Clements, Donnellan and Read, 2004)

Transactional services, like account payable, payroll, account receivable, general accounting, etc, should be outsourced. Business analysis, finance policy formulation and decision making related practice are key functions that should remain the internal activities.

Normally, there are four-tier pyramid functions in a company's finance, as figure 2 shows. From bottom to up, tier one is about transactional processes like payroll, account payable, travel and expenses, account receivable; tier two deals with financial and management accounting, like general account, cash management, statutory reporting; tier three handles budgeting and forecasting, finance decision-making; and tier four is in charge of policy and strategy.

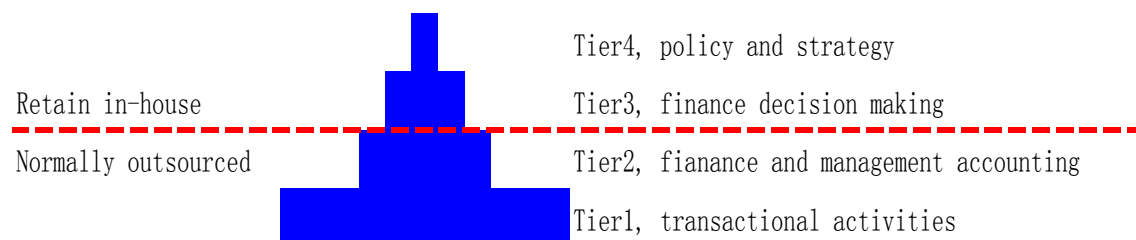


Figure 1, four tier finance functions

Source: CFO Insights: Achieving High Performance through Finance Business

Process Outsourcing (2004)

Tier one and tier two contain mostly routine and repetitive transactional works that account for 80% of total finance and accounting headcount. Outsourcing the two tiers could save much head count cost and get higher-level services. Some areas that need very professional knowledge, like tax planning and reporting, regulatory reporting and financial statements, are also candidates for outsourcing.

Tier three and tier four require much judgment by the company's specialist knowledge and core skills, thus they are normally retained in house and not outsourced.

3.6 Relations with service providers and how to choose a proper outsourcing partner

According to Clements, Donnelian and Read (2004), there are three principal outsourcing options, namely conventional outsourcing, collaborative outsourcing and business transformational outsourcing. For each level of outsourcing, the relations with the service providers are different. We also need to mention offshore outsourcing at last.

3.6.1 Conventional outsourcing

Conventional outsourcing means that companies outsource their supporting functions to professional service providers to reduce cost and enable the company to focus on core-value business. The relations with the service provider might be as following.

- a. To outsource a single transactional process to a single provider. This is mostly used at the beginning phase of a company outsourcing.
- b. To outsource multiple activity-based processes to a single provider to get the simple relation with the partner and integration improvement. The development of IT technologies enables the collaborative applications integration and web-based applications, which makes multi-processes outsourcing possible.
- c. Not only to outsource the processes of low strategic value, but also to outsource the process with medium-to-high strategic value.

- d. For integration purpose, some companies choose to host their own applications on their service providers' servers. The advantage is that both the company and the partner are actually using the same system except for the different locations they are in.

3.6.2. Collaborative outsourcing

Collaborative outsourcing means that companies not only outsource but also partner with the service providers to improve and reshape their business processes. By this way, companies not only can reach the goal of cost cutting, but also could get much more flexibility.

3.6.3. Business transformational outsourcing

Business transformational outsourcing means that, in order to achieve corporate-wide improvement, companies work closely with their partners to implement the dramatic business process transformation. It is a powerful tool for companies that need radical changes. But companies really need careful considerations before they decide to do business transformational outsourcing.

3.6.4. Offshore outsourcing

We have mentioned offshore outsourcing at the beginning of the paper. Offshore outsourcing means to outsource the work from some developed countries to other areas of the world, normally developing countries, where the labor cost is much lower or tax savings is available. Lipson (2004) pointed out three ways to for global outsourcing.

- a. Captured in-sourced shared service solutions. It means that some global corporations would like to relocate their back-office operations to offshore locations, like India and China, where there is manpower in low-cost.
- b. Some companies choose to transfer the back-office operations to one of the niche service provider who generally are native operators based in low-cost countries.
- c. To outsource back-office operations to mega-service providers who operate from multiple locations around the world.

Some developing countries are the ideal locations for multi-national companies to outsource their F&A functions. For example, India has 250 universities and 10,500 colleges that educate big amount of English speaking high-skilled workforce. It is the leader of offshore IT outsourcing. There are 1.3 billion populations in China. Most of the people's salary is quite low. For example, for most of the well-educated people, their salary is only \$9000 a year. Chinese government is now encouraging IT development by setting up software parks in many cities and provides tax incentive for IT companies. All of these enable China to be the good location for F&A outsourcing.

White (2001) emphasizes the importance of alliances and partnerships for any-sized company. He states that "outsourcing is an innovative way to establish both an alliance and a partnership". The healthy relationship with the outsourcing partner could guarantee that the partner could not only provide the basic standard services but also bring some innovation to the company in line with the company's fast development and change.

To choose a right outsourcing partner, companies need to set the following requirements.

- a. Whether the provider could provide continuous good service and economic benefits and if the possibility of success is high.
- b. Whether the provider's service is flexible enough to meet the requirement of changing management changes as result of government and environment changes.
- c. Whether the provider's cultural is matched with the company's. It is important to measure the partner's working style and personalities to see if they are compatible with the companies'.
- d. Whether the price of the provider is reasonable to guarantee the basic benefit the outsourcing.
- e. Whether the provider is capable of providing efficient and professional services. It is important to measure the partners' IT hardware and application support level.

3.7 How to successfully plan and implement F&A outsourcing

To successfully achieve the goal of F&A outsourcing, companies need to pay

attention to the following items when they start to think about F&A outsourcing (Clements, Donnellan and Read, 2004).

- a. The relationship with the outsourcing partner has significant impact on the success of the outsourcing deal. The outsourcing partner not only needs to know the internal process of the company, but also needs to understand the company's business at the strategic level so that they could provide value-added services during the outsourcing process.
- b. The good outsourcing service contract is very important for the success of the outsourcing case. In the contract, it is necessary to identify the metrics to quantify and measure the possible work outputs. Subjective judgment is also required to evaluate the performance. The contract also needs to include the details of client's need, service provider's responsibilities, processes that both parties have set, the company's decision rights, service management framework definition, and the regular internal control audits. The publication of Sarbanes-Oxley regulations ensures that both processes and risks will have to be fully documented, including the outsourcing business.
- c. To ensure the success of the outsourcing, timely review, say monthly or quarterly, on contract performance is very crucial, especially during the first year of outsourcing implementation. The regular internal control audit could also help to find out the shortcomings timely and guarantee the success of the deal. The fees should be decided on the basis of performance and have incentive factors so that the continuous improvement is possible.
- d. Since outsourcing may result in the lay-off of some employees or the whole department, it is very likely to lead to the staffs' reluctance. Even if some staff can be transferred to the service provider, the resistance mind from them is still inevitable. To make the transition smoothly and successfully, top managers need to work with human resources in advance to arrange the clear timetable and well-designed severance packages.

3.8 Summary

In this chapter, we discussed in detail F&A business process outsourcing. After reading it, readers may understand what is F&A outsourcing and its driving forces, its advantages, what could be outsourced and what could not, different relations with the service providers and how to choose a good provider, and finally the success factors of F&A outsourcing.

In the next chapter, the situation of F&A business process outsourcing in China will be discussed.

CHAPTER4. F&A BUSINESS PROCESS OUTSOURCING IN CHINA

4.1. Different types of enterprise ownership in China

China's economy has been developing very fast since it started the market economy reform in 1978. Outsourcing has been used continuously in many industry sectors in China since it was stimulated in later 1980s (Ang and Straub, 1998). But comparing to the global outsourcing trend, China's outsourcing market is still in the beginning phase. The amount of the companies that outsource their business is still not high, and most of them are multi-national companies, instead of the local state owned enterprises and private companies.

In China, there are different types of enterprise ownership. They are state-owned, collectively owned, shareholding ventures (also can be regarded as private companies), Sino-foreign joint ventures and wholly foreign-owned enterprises (Lam and Han, 2005). State-owned enterprises are owned by the country actually that are normally stated as that all of the assets and products are "owned" by the workers (who are officially the owners all the country's assets in communist world where private ownership does not exist). Collective-owned enterprises are similar to state-owned enterprises except that the assets and products are owned by a certain group of workers instead of all (this is the mixed form of communist system's common ownership and the capitalism's private ownership). Shareholding enterprises are owned by shareholders who are responsible for the companies' profit and loss (this is pure private ownership same as most of the countries with market economy and private ownership). Sino-foreign joint ventures are invested by both foreign and Chinese parties and both parties manage the companies. The wholly foreign-owned companies are wholly invested and managed by foreign investor. Besides the five types of the companies, there are also government sectors.

Different types of the companies have different perceptions on F&A business process outsourcing. Some may focus on the quality of the service delivered by outsourcing vendors, while others may pay attention to the contractual prices very much (Lam and Han, 2005). Governments are always the most difficult sector to implement outsourcing. According to Regan and Virzi (2003), it is more difficult to do outsourcing work in government sector than other companies because it is necessary to defend proposals in public hearings. It is also difficult for state-owned enterprises to consider outsourcing their F&A functions to outside providers because in state-owned companies, employees are normally permanent hired with life time job security. Outsourcing is always hard to be adopted by state owned companies because laying-off employees is difficult. Also, since the labor cost in

China is low, state-owned companies seldom think of reducing cost by outsourcing. (Lam and Han, 2005)

4.2. Outsourcing situation in China

Lam and Han (2005) have done a survey on outsourcing strategy involving the hotel industry in Shanghai, China. The research shows that the outsourcing market in China is still immature. The most concerns that prevent the outsourcing is that there are no complete laws in China currently to protect the companies if the outsourcing suppliers failed to delivery their promises and duties. The second hindrance that prevents the outsourcing in China is the lack of reliable outsourcing suppliers in the market.

Regarding choosing outsourcing partners, the results show that senior managers normally put more focus on suppliers' brand name, past performance and capability than department managers. The main reason of the difference is that senior managers are more aware of the long-term strategy of outsourcing and know that besides cost reduction, suppliers would help companies to maintain the service standard and even develop new markets. Departmental managers might only see the short-term benefit from outsourcing. It is very important for both management groups to have the common recognition on outsourcing and have the common goal to avoid any conflict between them during the outsourcing implementation.

Chinese organization culture is another important factor to be considered during the outsourcing in China. Zhao (2001) indicates that Chinese always care a lot about relationships and Chinese organization culture is power-driven and emphasizes the harmonious working conditions. Contra to western organization culture's mutual respect and individual performance, Chinese organization culture emphasizes collective mentality and performance. To make the outsourcing deal successful, it is very crucial for the company to choose a proper outsourcing supplier who can adapt to Chinese organization culture very well.

4.3. Normally outsourced F&A functions in China

In the start phase of Chinese outsourcing market, Chinese enterprises could outsource their following F&A functions to the 3rd-party professional service providers.

4.3.1 Salary outsourcing

In the past, for most of the companies, monthly salary is calculated and paid by human resource department and finance department together. Since the salary information is confidential, human resource department normally calculates it. The calculation will be passed to finance department with the subtotal of each cost center for payment and book keeping purpose. For cost centers with only one to two staffs, it is very simple for the bookkeepers to find out the salary of a certain employee. Also, for the cost centers with many employees, when a certain people join or resign from the company, his/her salary can be observed from the period changes.

To outsource the salary to a 3rd-party partner can guarantee the confidential. All the information is kept in the service provider and people in the company have no way to know the information about salary. So salary outsourcing is the most popular in China's outsourcing market. In the United States, there are also about one fifth companies who outsource their salary and benefit work.

4.3.2 Tax outsourcing

In China, the state policy and the local tax policy in each province is very complex and it is very crucial for companies to obey those policies. If companies violate the tax regulation, there will be very high penalty and cost. So the companies depend on the government very much on the perspective of tax. Since it is hard for companies to find internal employees who are professional enough on taxation, most of the companies choose to outsource their tax to professional accounting firm. New companies are more likely to consult with the professionals about their tax plan.

4.3.3 Financial report outsourcing

Companies in China are under the supervision and control of some government organizations during the business operation, like China Industry and Commerce Administration Bureau, China Statistic Bureau, Stock Administration Bureau, and so on. The main method of the supervision and control is to review the companies' financial reports.

At the same time, companies also need to present the financial reports to different kinds of interest groups, like shareholders, bankers and so on. It is very crucial for the company to provide eligible and standard financial reports to meet the requirements of different parties and financial standards. So many companies

choose professional service providers to help them prepare the financial reports monthly, quarterly and yearly.

4.3.4 Travel and entertainment management

Travel and entertainment management is very important for companies because it is a very big part of the company's expense and it is very complex to control the related expense. To manage and control it well, it needs big amount of professional staffs and to follow many detailed policies. For example, for business travels, the room standard in hotels and airplane seat levels is set up according to different levels. The limitation of entertainment expenses is also set to different levels of staffs. The policies and regulations should be set in very detail and the implementation should be examined and checked periodically. Thus, it will take a lot of time and cost for companies to manage and process their travel and entertainment expenses.

To outsource the travel and entertainment management to the 3rd party, companies will save lots of headcount on travel and entertainment management. They can also get the relevant management information in time, which could help the company to control the expenses and to study the ratio of the actual vs. budget. The outside regulation organizations also recognize that expenses that are regulated by the 3rd party are more transparent.

Besides, since the service providers normally cooperate well with hotels and travel agents due to the big volume, they could get good discount. Thus the companies' travel cost could also be reduced.

4.3.5 Account receivable outsourcing

Account receivable is very important for a company, especially in logistic and commodity companies. If account receivable is delayed for long time and in large amount, companies will have bad debt and cash crisis, which will seriously influence the companies' cash flow and daily operation. Many companies bankrupted only because of cash flow problem.

Account receivable calculation, analysis and management take a lot of time and manpower. It also needs high-level management methods. Some companies outsource the account receivable to solve the problem and increase the turnover of current assets.

With the integration of global economy and the development of China's industry integration and finance professional market, F&A outsourcing in China will have very bright future.

CHAPTER 5 EMPIRICAL STUDIES

5.1 Objective and structure of this chapter

In this chapter, we will research on F&A outsourcing in China using survey and interview. The target is to figure out the situation of F&A outsourcing in China. First, the Research method and background is introduced. Then three hypotheses are presented. Finally, the analysis of the feedback of questionnaires is presented. Readers could understand the background information of the researched companies. The hypothesis will be testified after the analysis of the result of the survey in the next chapter.

5.2 Research method and background

This is essentially an explorative and descriptive research, not a sophisticated academic research. The reason is that China has been the major source for companies to outsource (their production mainly) so far, the situation of if and how Chinese companies will also outsource some of its functions is rarely discussed and I believe it is worth exploring when China is now also facing increasing competition from other low cost countries, e.g. Vietnam, India etc...and Chinese companies are going global and facing tougher market situation than that in domestic market. Understanding this will provide valuable insights for Chinese companies to improve their competitiveness and also foreign companies operating in China or plan to go to China, e.g. provide outsourcing service.

The research tries to find out what Chinese companies think about F&A business process outsourcing, if they know the advantages of it, what is the situation of F&A business process outsourcing in China, and if there are any special circumstances that influence the development of F&A outsourcing in China.

The research is conducted by the survey and interview. The method is selected because there is very little study about F&A outsourcing in China, as a first step it is better to explore the overall situation. Survey best fits this purpose. Survey is a descriptive method that is useful and powerful for collecting data from large targeted group on phenomena that cannot be observed directly (Doyle). The analysis on the survey feedback could normally show people's opinions on something. The survey for this research is conducted by sending questionnaires by email, following explanations by phone. The questionnaire consists of two parts. The first part is about the basic background of the company. The second part is about the respondents' viewpoint and experience on F&A business process

outsourcing. Most of the questions are forced-choice ones that aim to get respondents' basic information and their basic opinions on F&A outsourcing. There are also a few open-ended questions that aim to get more information beyond the researcher's knowledge and imagination.

Interviews are also conducted for this research to get deep understanding about some respondents' opinion, especially regarding the open-ended questions, like why they think their F&A outsourcing is successful or not, if Chinese branch has same result from F&A outsourcing as other branches abroad, and if there is any special circumstance in China that influence F&A outsourcing, etc. The targeted interviewees are chosen from the survey respondents according to their feedback. After knowing their background and basic experience and opinions, the interviews can be focused on key issues and are more efficient.

If the research is conducted only by survey, the content might be restricted to the questionnaire. Although there are some open-end questions, few people would like to take time to write much on the paper. Their valuable experiences and opinions on F&A outsourcing might not be known and shared. If the research is conducted only by interviews, much time will be wasted on introducing the background of the respondents' companies. The combination of survey and interview could get both general data and also deep information efficiently.

The limitation of the survey is that if the sample is not broad enough, the survey result might be biased and the result might not represent the whole picture. It is also possible that some respondents purposely or unconsciously answer the questions incorrectly or flippantly.

The questionnaire has been sent to 70 persons who are working in finance or accounting field or in the management position of other functions. When choosing the targeted respondent companies, the author tries to cover different types of companies in different industries. The companies are chosen from "Yellow Book" (like Blue Book in Finland) of Beijing and Shanghai. The contact information of the target respondents was got from companies' reception staff, headhunters that the author knows, or the authors' own connection in auditing firm. The companies that the respondents are working include state-owned companies, private companies, multi-national companies, and even branches of the government. The industries cover IT, manufacturing, telecommunication, software, trading, consulting and so on. Company size ranges from small companies to the Chinese subsidiaries of world top 500 companies.

The questionnaires have been sent out to targeted respondents from August 11 to 15, 2007. To guarantee the enough feedback of the questionnaire, the author contacted

with the potential respondents by phone in person to explain the background of the survey after the questionnaire has been sent to them. Around half of the target respondents answered the questionnaire within a week. For those with no reply after one week, the author sent the kind reminder again. Finally, before August 26, the author got the feedback from most of the rest respondents. With these efforts, the return rate is very high. Totally 62 questionnaires has been returned. The return rate is 88.6%.

Although the return rate is high, the survey was conducted only in Beijing and Shanghai so that the survey scope is not broad enough to draw an impartial conclusion with respect to the huge population and the large numbers of companies in China. Limited time and budget do not permit us to do broader investigations in other cities of China by the time this research was done. Since Beijing and Shanghai are the political and economical centers in China, the author believes that the survey is still valuable to the research objective.

Among the feedbacks, some targeted interviewees were selected for those who have experienced F&A outsourcing, or strongly objected F&A outsourcing, or thought their Chinese branch hadn't got similar expected result from F&A outsourcing as branches abroad. The interviews were conducted from August 18 to 31 by telephone, face-to-face meeting or working lunch. Since some people have no time for the interview or have other excuses, finally 12 interviews were conducted. The interviewees included finance director and financial analyst in a medium-sized U.S. multi-national IT company who had just experienced F&A outsourcing two years ago, network development manager in a Chinese state-owned telecommunication enterprise, accountants in big-sized U.S. multi-national IT company that has outsourced F&A function several years, IT manager in a Chinese merchants bank, CFO of a foreign investment company, finance managers in a very big private telecommunication company, senior tax consultant from professional accounting firms that provide tax and accounting related services to the clients.

5.3 Hypotheses before the survey

We set the following hypothesis before the survey and interviews.

Hypothesis 1. In China, not all the companies are suitable for F&A Outsourcing.

We have mentioned above that there are different types of enterprise ownerships in China. Terry and Michael (2005) points out that different types of the companies have different perceptions on F&A business process outsourcing. Outsourcing is

always hard to be adopted by state owned companies because laying-off employees is difficult. Also, since the labor cost in China is low, state-owned companies seldom think of reducing cost by outsourcing. Regan and Virzi (2003) also mention that governments are normally the most difficult sector to implement outsourcing. We want to test that if government and state-owned companies in China are not suitable for F&A outsourcing and why. We also want to know if there are any other types of companies or any industries are not suitable for F&A outsourcing. So we set the first hypothesis that not all the companies are suitable for F&A outsourcing in China.

Hypothesis2. *For multi-national companies, the result of F&A outsourcing in China office might be different from that in Europe and USA.*

With the fast economic development in China since it started the economic report in 1978, more and more foreign companies have been investing in China. Many multi-national enterprises have set up representative offices or subsidiaries in China. Some set joint ventures with Chinese companies. Many articles have reported the conflict between foreign parties and Chinese parties due to culture difference and Chinese special circumstances. To compromise with Chinese circumstance both politically and culturally, many multi-national companies are more and more localized. In business world, we could always hear about localization when multinational companies are talking about the strategies in China. Localization is also visible from management-level staff hiring. In the past, almost all of the management staffs were appointed from head quarter. To save cost and to be more localized, in recent years, more and more local employees are promoted to important positions in management level. Thus we couldn't help wondering if this will lead to the different effect of F&A outsourcing in Chinese office from branches abroad. So we set the second hypothesis that for multi-national companies, the result of F&A outsourcing in China office might be different from that in Europe and USA.

Hypothesis3. *Unique culture and circumstance of China has unique impact on F&A outsourcing.*

China is a developing country. The law and regulations have not been set up so soundly in the short period. The culture is also different between developed and developing countries, as well between western and eastern countries. Zhao (2001) points out that when considering outsourcing, it is important to think about Chinese organization. Chinese always care a lot about relationships and Chinese organization culture is power-driven and emphasizes the harmonious working

conditions. Contrary to western organization culture's mutual respect and individual performance, Chinese organization culture emphasizes collective mentality and performance.

The research by Terry and Michael (2005) shows that the outsourcing market in China is still immature. The most concerns that prevent the outsourcing is that there are no complete law in China currently to protect the companies if the outsourcing suppliers failed to delivery their promises and duties. The second hindrance that prevents the outsourcing in China is the lack of reliable outsourcing suppliers in the market.

We would like to test if the above conclusions describe the real situation in China and if there are any other factors in China that have positive and negative impact on F&A outsourcing. Thus we set the third hypothesis that unique culture and circumstance of China has unique impact on F&A outsourcing

5.4 Result Analysis – background information of researching companies

Before we present the findings, let's show the background information of the researching companies first.

Question 1 is about the nature of the companies. The companies include governments, state-owned companies, private companies, multi-national companies, foreign companies and joint ventures. Please note, we mention multi-national company and foreign company separately here to emphasize that multi-national company normally has branches in many countries around the world, while foreign company maybe have only one or two branches out of its country.

The nature of the researching companies

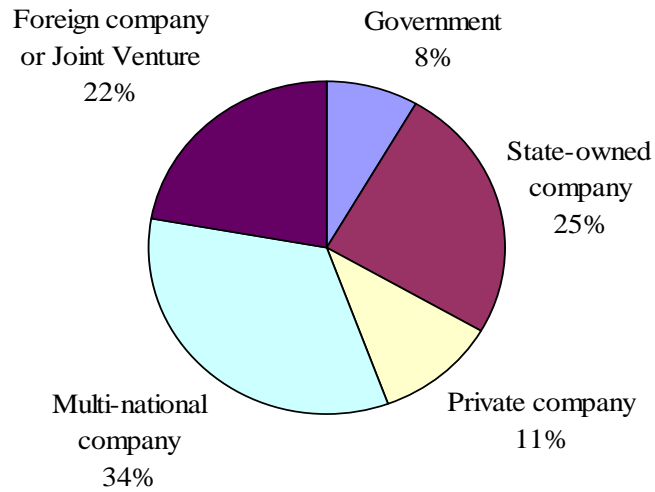


Figure 2, the type of the surveyed companies

Question 2 is about the industry of the companies. It covers information technology, manufacturing, finance & banking, telecommunication, trading, consulting and government.

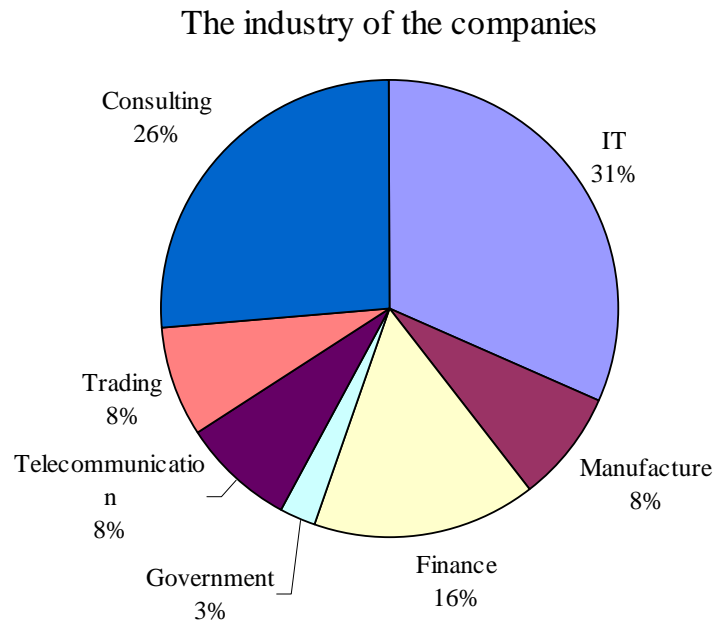


Figure 3, the industries of the surveyed companies

Question 3 and 4 are about the companies' size. The number of the staff ranges from less than one hundred to more than ten thousand. For multi-national companies, we only counted the staff in China. The number of staff in F&A department ranges from several people to more than one thousand.

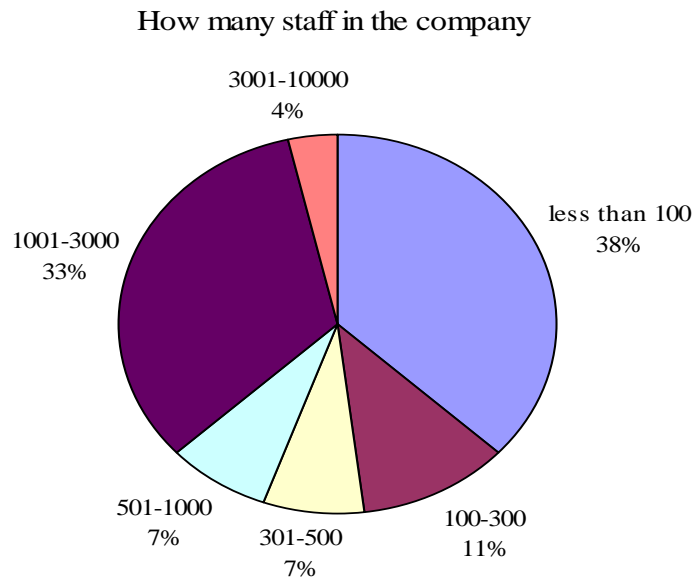


Figure 4, number of staffs in the surveyed companies

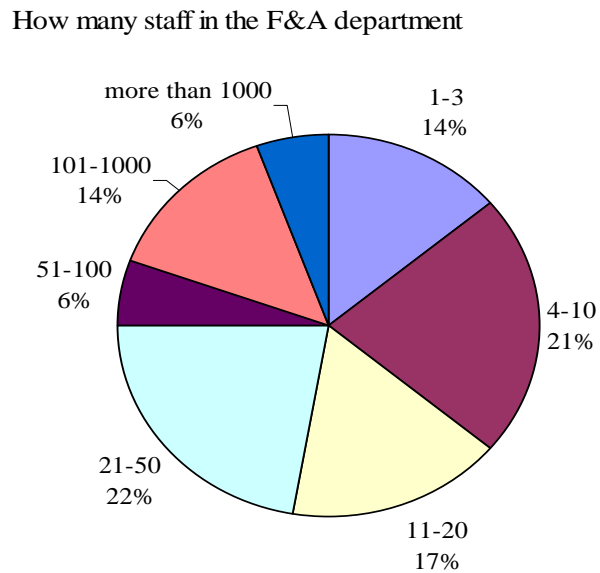


Figure 5, number of staffs in the F&A departments of the surveyed companies

Question 5 and 6 is about the companies' branches in China and if there are F&A departments in all the branches.

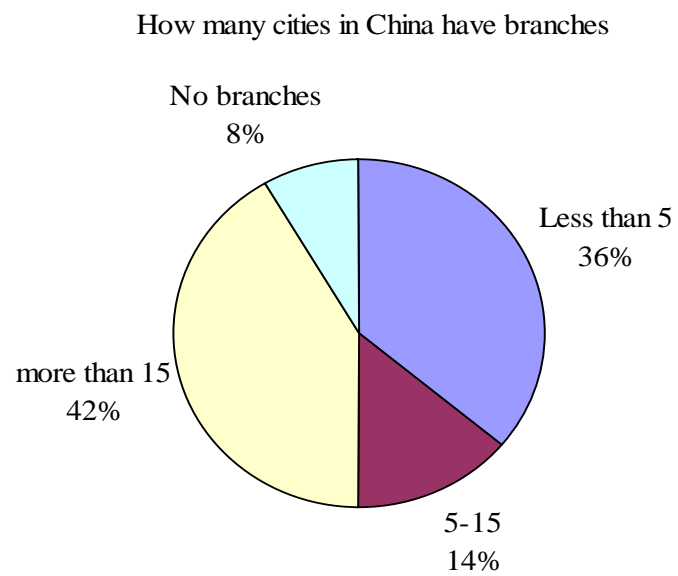


Figure 6, number of cities the surveyed companies have branches in China

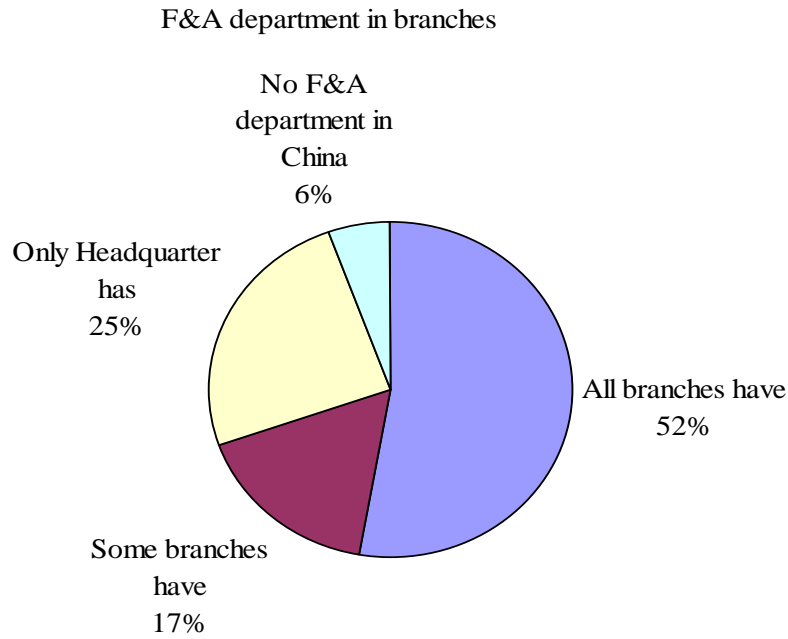


Figure 7, are there F&A departments in all branches

Question 7 is about if the company is the public company. The result shows that more than half companies are public companies that are listed in U.S., Hong Kong, or China mainland. The rest are not public listed companies.

Question 8 is about the respondents' position in the company. 81% respondents are on finance and accounting related positions, including accountant, financial analyst, financial and accounting manager, financial director and CFO. 19% respondents are on other management positions out of F&A department.

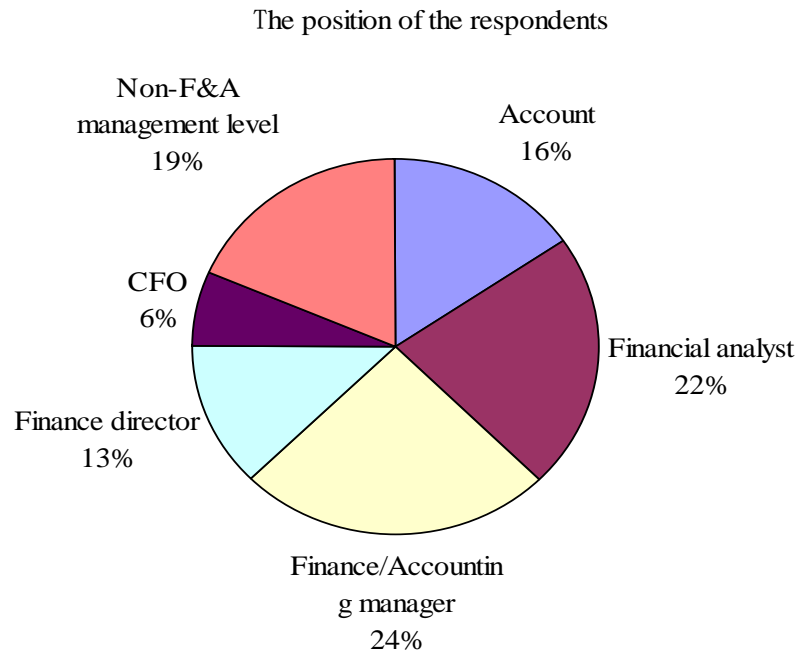


Figure 8, the positions of the respondents in the surveyed companies

The wide varieties of the companies the respondents are from provide solid foundation of the research. In next chapter, we will present the results of the empirical study.

CHAPTER 6. THE RESULT OF EMPIRICAL STUDIES

6.1 Introduction

This chapter shows the result of the survey. First, the general results on peoples' view on F&A business process outsourcing is discussed. Then, the answers to the three hypotheses are presented.

6.2 General results of the survey

Question 9 and 10 are seeking to know the level of people's awareness to F&A outsourcing in China. Among the respondents, only 6% persons have never heard about F&A outsourcing. More than 94% respondents know about F&A outsourcing from seminar, magazine, other companies or the companies that they have been worked or are working for now. Half respondents have never used F&A while half have been involved in F&A outsourcing themselves. It turns out that F&A business process outsourcing is not new to Chinese people any more. More and more people have been involved in it or have heard about it from different channels.

Question 11 and 12 ask what functions companies want to outsource. The choices are listed below from top to down. It is very obvious that payroll, account receivable, tax, account payable, general ledger and even financial reporting is much more likely to be outsourced, while less people prefer to outsource their budgeting and planning, management reporting, cash flow and decision making related work. The result is similar to the international situation.

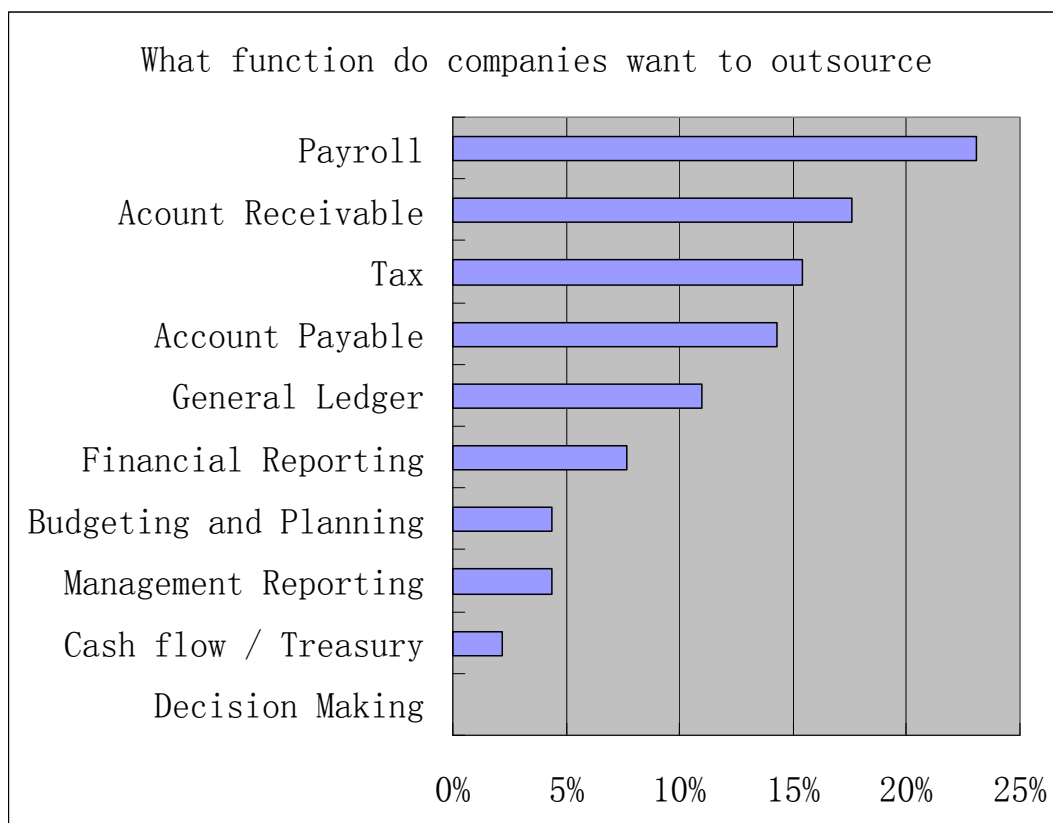


Figure 9, what functions do companies want to outsource

Question 13 and 14 are about the motivation (figure 11) and purpose (figure 12) of F&A outsourcing.

The result shows that the main driving force and motivation for companies to outsource their F&A function is cost reduction, and then the need for the company's globalization. From literature review, we seldom found that the need for the company's globalization has been mentioned as a motivation of F&A business process outsourcing. While this survey shows that in China it is an important factor when companies think about F&A outsourcing. One of the interviewees, a senior tax consultant in a famous professional accounting firm mentions that there is a big gap between China's accounting standard and international standard. If a Chinese company wants to go abroad, it faces big challenge on the standardization of its financial and accounting, both to international standard and to the standards of countries of its all branches located.

Other motivations include fast growth or decay of the company and companies' reorganization. Few people choose improving the competitive capability as the

motivation of F&A business process outsourcing, while globally, more and more companies have chosen F&A business process outsourcing as the tool to increase their competitive capability. In this point, it seems that Chinese managers have not realized the importance of F&A business process outsourcing as the same level as global pioneers.

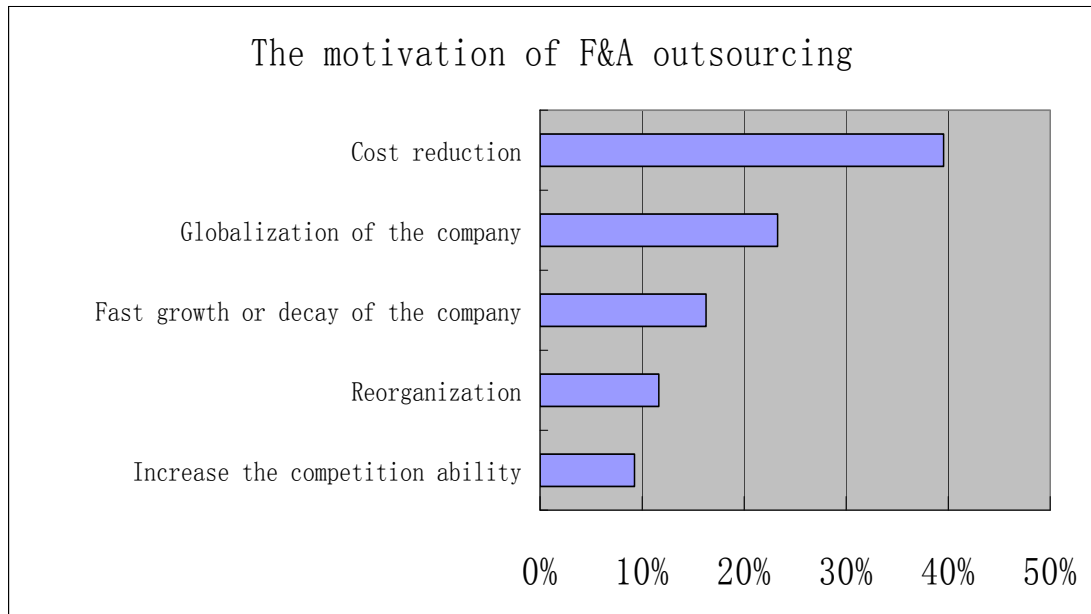


Figure 10, the motivation of F&A outsourcing

Similarly, most people choose cost reduction and getting outside professional services to meet strict regulations and global standard as the main purpose of F&A outsourcing. Other purposes include increasing internal control, improve the efficiency and get on-time F&A services.

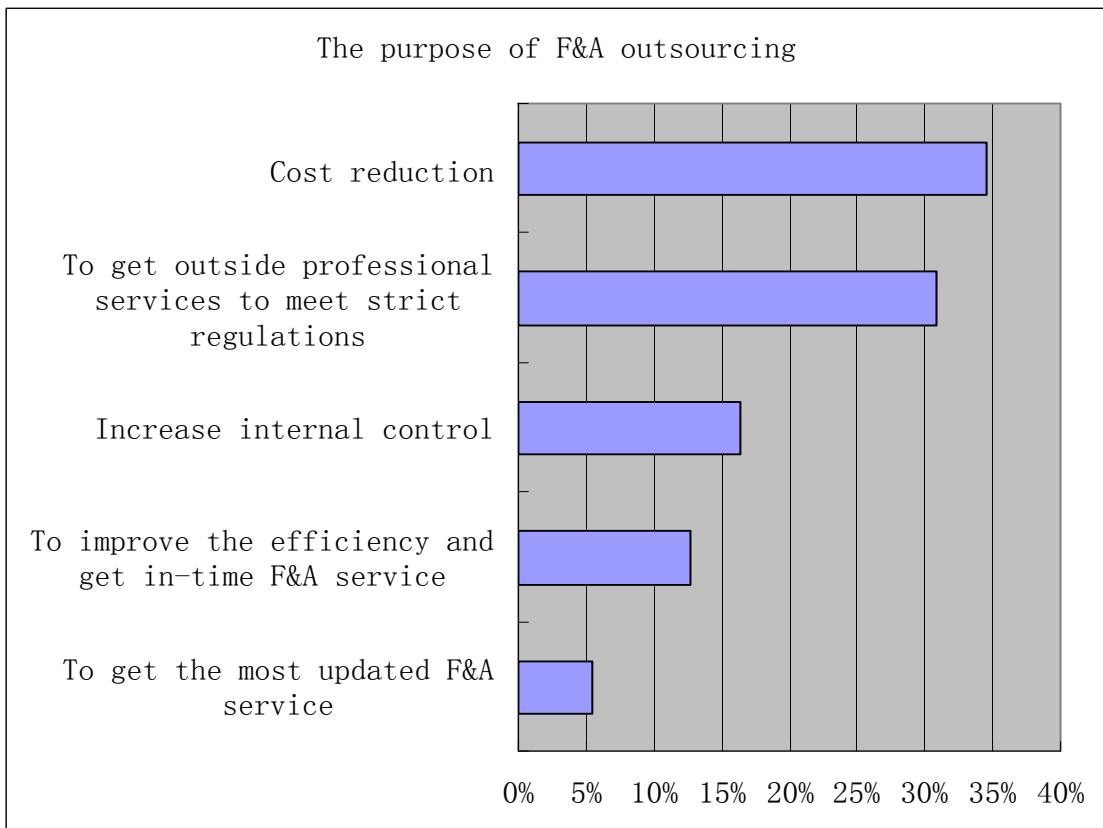


Figure 11, the purpose of F&A outsourcing

Question 15, 16 and 17 are about the advantages and main concerns about F&A outsourcing. Most of the people think that F&A outsourcing could reduce cost, improve the F&A service level and control risk in some points. While few think it could improve the competitive ability. (Figure 13)

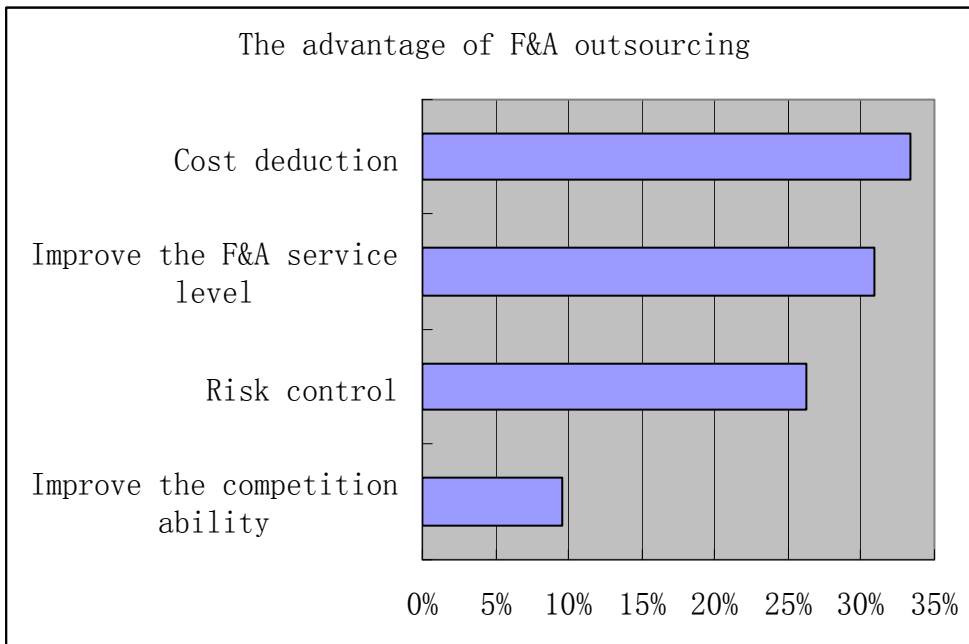


Figure 12, the advantage of F&A outsourcing

The biggest worries about F&A outsourcing is the quality of outsourcing, confidential information leakage and the control of outsourcing staff. Few people worry about the cost of outsourcing because most of them believe outsourcing could decrease cost definitely. Almost no people worry about the influence on employees' morale. (Figure 14)

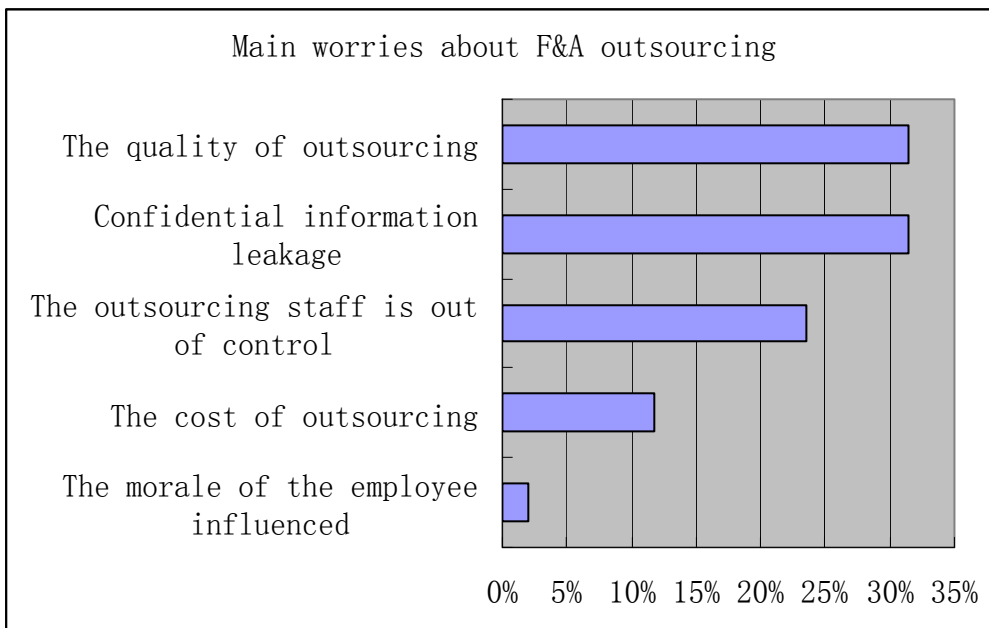


Figure 13, the main worries about F&A outsourcing

Regarding if F&A outsourcing will increase or decrease the corporate risk, the result is very interesting. 40% think it will increase the corporate risk and 4% think it will decrease. 20% think F&A outsourcing will not influence the corporate risk at all.

Question 18 shows which stage is difficult during the F&A outsourcing. More than 40% people think the most difficult stage of F&A outsourcing is the selection of service provider and F&A migration to service provider. People do not think it is difficult for contract negotiation and service provider management.

6.3 Answers to three hypotheses

The questions we have discussed above and the rest questions could answer the three hypotheses. Below, we will focus on the result of three hypotheses.

Hypothesis 1. Not all the companies are suitable for F&A Outsourcing.

The respondents are from different companies in different industries. Question 10 is about if their companies have ever used F&A outsourcing. We have indicated in the above that half respondents have never used F&A while half have been involved in F&A outsourcing. When looking deeply, we found that people who have never used F&A outsourcing mainly come from government, state-owned companies and private companies. In other words, it is also true from the data that all of the respondents from government, state-owned companies and private companies have never used F&A outsourcing, at least in this survey. Most of the respondents from multi-national companies or pure foreign companies or joint ventures have used or are using F&A outsourcing.

From industry's point of view, few respondents from finance/insurance/banking and science/education industry have used F&A outsourcing. It is actually quite consistent that most of the finance/insurance/banking companies and science/education institutions are state-owned.

Question 19 asks about what people think are suitable and NOT suitable for F&A outsourcing, from both industry and companies' nature's point. Figure 15 and 16 show the result about industry. Figure 17 and 18 show the result about company's nature. The result is similar to what we have found from question 10, i.e., most people think that in China, government and state-owned companies are not suitable for F&A outsourcing, while private companies depends.

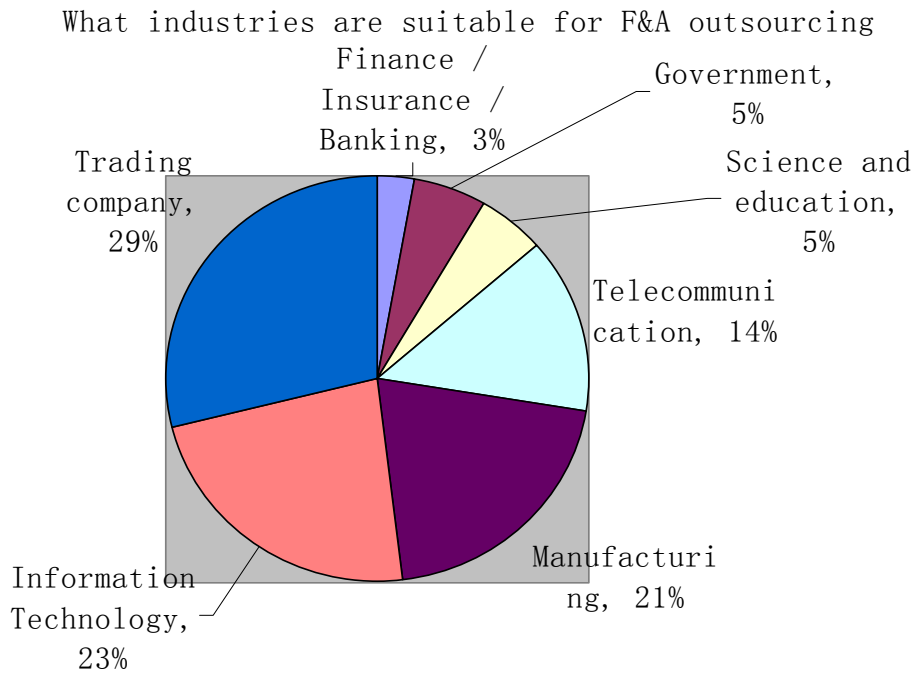


Figure 14, what industries are suitable for F&A outsourcing

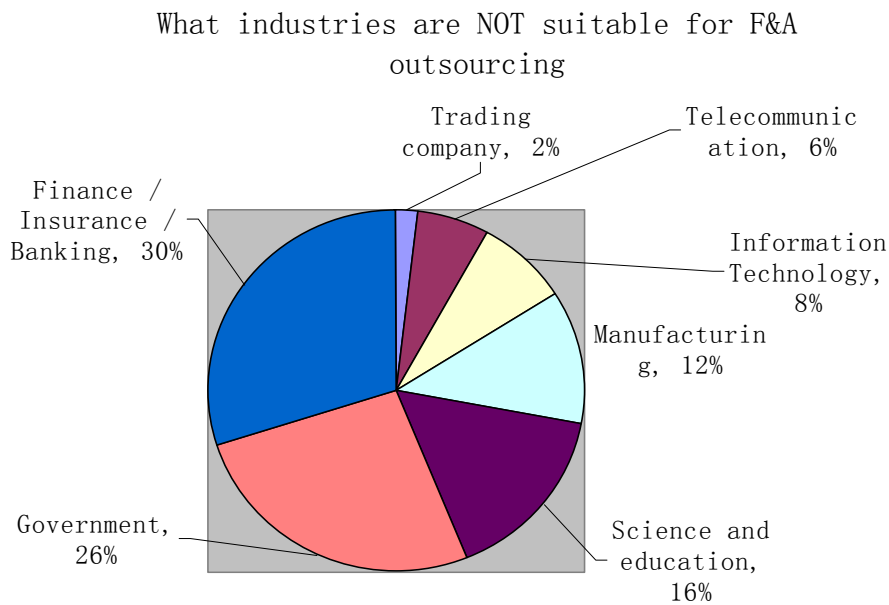


Figure 15, what industries are NOT suitable for F&A outsourcing

What companies are suitable for F&A outsourcing

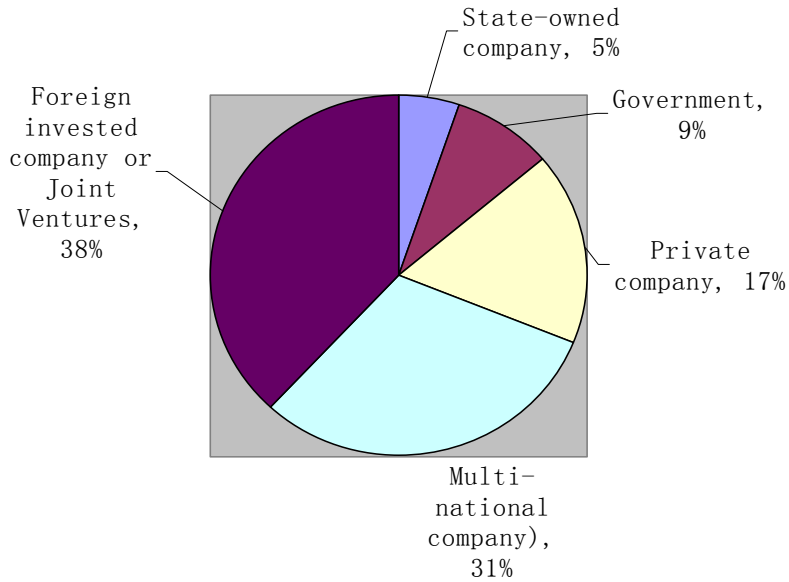


Figure 16, what companies are suitable for F&A outsourcing

What companies are NOT suitable for F&A outsourcing

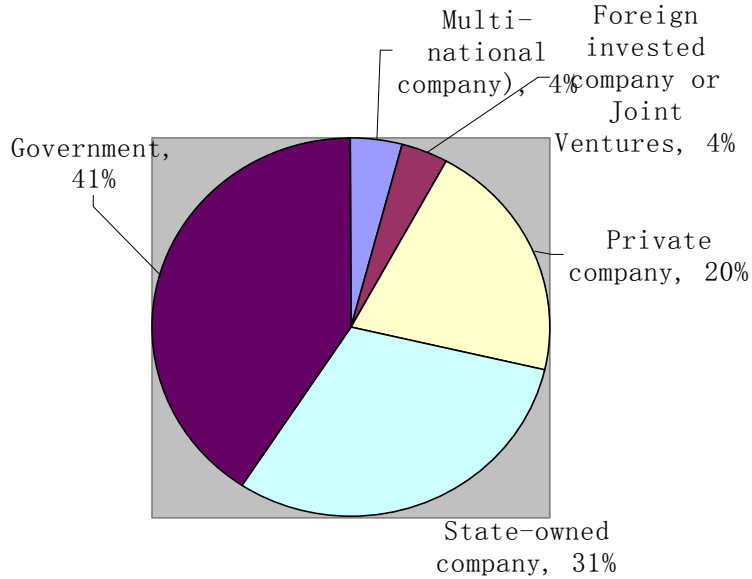


Figure 17, what companies are NOT suitable for F&A outsourcing

The interviewee from the accounting firm that provides accounting and tax services to many companies pointed out that from her clients, she found out that the following Chinese companies are suitable for finance and accounting outsourcing.

a. New companies

The new companies have to set up their financial system from zero. It costs more to hire professionals on the setting up and it takes more time for the whole process to be established.

b. Small scale business

Some companies, like automobile design, do not have much business through the year. F&A department are quite busy when companies have a lot business to do, while the rest time they are in idle status. This situation cost the companies a lot more to have their own full time F&A functions. F&A outsourcing could improve the situation.

c. Companies with seasonal business

Seasonal companies have the similar situation as above. It refers to the company whose business volume goes up and down in different seasons. They will have more business in some seasons, while in the rest time of a year they almost have a lot less or nothing to do.

d. Companies with multi branches.

Some companies have many branches in F&A department that are in charge of different functions. Multi-branches could avoid fraud in some points, while it will also cost more as a consequent of functions build redundancy. F&A outsourcing could avoid this situation and save cost.

Hypothesis2. For multi-national companies, the result of F&A outsourcing in China office might be different from that in Europe and USA.

Question 21 is about hypothesis 3. The question is “If you are working in a multi-national company and China is one of the offices to be involved in F&A outsourcing, do you think it is different in China to implement it from the other offices? Could you get the same result as other countries?” Most of the respondents choose the answer “different”.

Among the targeted companies, there is a medium-sized U.S. multinational IT company with 2500 to 3000 staff globally. Their high-tech products had once brought the company high profit before late 1990s. But it experienced down-size in recent years. The company has been reorganized several rounds to cut operational cost to improve profitability. Finally in 2005, they decided to outsource their F&A function to further improve the efficiency. For branches in Asia Pacific, F&A functions are outsourced to a 3rd party service provider located in Malaysia. I interviewed the finance director and financial analyst in this company.

According to their description, finance staffs in China reduced from seven to four after outsourcing. The finance director said that the outsourcing actually didn't reduce much cost because Chinese labor cost is not high at all and the savings from head count cut is breakeven to the fee to outside service provider, or even less than it. The financial analyst complained about the quality of the service provider since he always could find their errors in book keeping. The communication with staffs in Malaysia also makes him feel painful. He could understand the reason that they have so much misunderstanding, different language is the main reason. The finance director also mentioned that Chinese regulations and requirements from tax bureau and statistics bureau changed quite fast, they need to join the training every now and then, and then taught the service providers about the changes. For some reports and forms that are in Chinese, they have to complete it by themselves.

The main reasons they think the result of F&A outsourcing in China office is different from abroad are summarized as below.

a. Service providers are not familiar with local policy

Some multinational companies choose a service provider outside China, for example, in Malaysia, Singapore and India, to provide F&A outsourcing service to their branches in Asia Pacific region. China has unique local policy that makes it different from other countries to understand. The outsourcing company actually could not understand local finance and taxation policy and practice. The result is that Chinese F&A staffs still have too many manual payment requirements in China.

b. Language problem.

Same as the above situation that service provider is in the south Asia. Although the staff in the multinational company's Chinese branch and staff in outsourcing company in south Asia can speak both Chinese and English, most Chinese staff's English are not good enough and most outsourcing company staff's

Chinese are not that good. When they communicate in English, Chinese staffs have hard time to understand and vice versa. The result is that no matter in which language they are using, it is not native language for either one of the two sides, thus the misunderstanding is unavoidable.

- c. Information technology has not high coverage as international.

Information technology in China has not been as widespread as developed countries, which will impact the result of F&A outsourcing in Chinese branch comparing to that in other countries. For example, one of my respondents is working in a multi-national company whose accounting function has been outsourced to a 3rd party in Malaysia. The service provider also works for other countries' branches in Asia Pacific.

China and Australia have the same number of F&A staff before the outsourcing. In China, since most of the companies do not accept electric invoice and electric remit, most of the payment has to be manually done by local staff. Although local tax bureau has started using Internet for tax claim, they seldom have web site in English version. It is also impossible for staff in Malaysia to come to China to join frequent short training on local policies. As the result, after outsourcing, Australia only kept one financial analyst and one financial controller, while Chinese branch had to keep four F&A staff, one financial director, one financial analyst for management reporting, one financial analyst for local reporting and taxation, and one cashier.

Another interviewee is a finance director who is from Singapore and has been working in both China and South Asia. He mentioned that F&A outsourcing may reduce the company's cost as a whole, but for China, it was not apparent. He also pointed out that the outsourcing companies in China lack skill and quality service. Since F&A outsourcing business is still in starting phase in China, the market is not mature yet. Some of the professionals in accounting firm are actually not professional enough and lack of experience to provide the F&A service. Some of them lack the basic sense of keeping confidential information and are not trustable to keep business confidential for the customers.

Hypothesis3. Unique culture and circumstance of China has obvious and unique impact on F&A outsourcing.

Question 22 is about hypothesis 3. The question is "Do you think there is any special circumstance in China that hampers or influences the result of F&A outsourcing?" Most of the respondents choose "YES". Interviews on this topic are

conducted so that we could understand the reason. The reasons they presented are summarized as below.

a. People's traditional view on F&A outsourcing.

People's mindsets are important criteria to the success of outsourcing. In China, most of the people from state-owned companies or private companies have the idea that F&A outsourcing means to cancel the F&A department in the company and somebody outside the company would make all the financial decision for the company. Interviewees from the state-owned telecommunication company and the big private-owned telecommunication instruments provider admitted it frankly. They think that F&A is a whole function and could not be broken up and outsourced. Actually, they don't even realize that F&A consists of many different functions, like account payable, accountable receivable, travel and expenses management, and so on. What they will outsource is only some of the functions that are very time-consuming without much value added.

It is not strange for people to have this traditional viewpoint on F&A outsourcing, especially for elder people who have been worked for state-owned companies for many years. China has been in planning economy for many years before 1977. China has been successfully transferred from planning economy to market economy. Meanwhile, Chinese companies are learning from foreign companies about their technology and management. Currently, China is still in the transitional period. Some old people's viewpoints have not changed well.

While, on other side, there are more and more young people who have obtained higher degree in top universities in China and abroad, and they have got the chance to be on the higher-level management position in multi-national companies. Some private companies realize that to improve their competition, they need to learn better management practice from foreign companies. To hire managers from foreign companies and give them higher position is not a rare strange practice for private companies any more. We believe that there will be more and more private companies who will realize the importance of F&A outsourcing and accept it.

For state-owned companies, the hiring method is much different from private companies and foreign companies. Most of the staff just joined the company when they graduated from the school. Some of them will be promoted after certain years that are normally long. They seldom hire high level managers from outside. So it is always hard for state owned companies to have fresh idea

to reform.

Another reason that state-owned companies are unlikely to outsource their F&A function is that most of the state-owned companies are very big, with hundreds of branches in each province and cities. There are 13 billion people in China. It is very important to create jobs. F&A outsourcing's direct result will reduce the head count of a company, which is the last situation that state-owned companies would like to see.

- b. Different financial policy and accounting standard, different economy environments.

One of the interviewees is vice president for financial control department from an investment banking joint venture. She is the qualified Chinese CPA and the member of ACCA. She also has very rich working experience in big multi-national companies. She points out that Accounting standard of People's Republic of China is much different from international accounting standard. For some foreign companies, they always need to prepare two sets of financial reports to both international stockholders and Chinese local government. If people in outsourcing service providers are not familiar with Chinese accounting standard, they cannot share the work load of the company well. The company still needs many F&A staff working on local issues, thus the result of F&A outsourcing will not be as good as planned.

The good thing is that China is speeding up the progress to shorten the gap between global standard. In 2006, China issued new corporate accounting standard to all the companies. The new standard is more consistent with IAS (International Accounting Standard). The requirement and regulations started to be implemented from July 1, 2007. It means that the financial reports of Chinese companies need to be published according to the new accounting standard. This will definitely make the F&A outsourcing easier to implement.

- c. Different policies of taxation

One of the interviewees is the senior tax specialist accounting firm. She mentions that in China, there are many kinds of tax regulations to different kinds of companies. One of the biggest differences of China's tax requirement from that of international is that all the invoices or receipts templates are issued centrally by government tax office with very strict standard. It means that the normal A4-sized invoices printed from companies' ERP or sales order system can not be regarded as legal invoice for Chinese company.

d. English language

As we have mentioned in the above, English level of Chinese staff is a very important factor that influences the result of F&A outsourcing.

e. Policies changes quickly

China is a developing country and is developing faster in recent years. Along with it, policies from both states to local level and to companies internally have to be changed frequently. It is hard for outsourcing service provider to follow the changes as fast as required.

f. China's finance and accounting circumstance is conservative comparing to international. In other words, most of the companies' financial and accounting practice is not transparent enough. It is hard to guarantee that all of the practice is compliant with the regulations. So most of the companies regard F&A function as extreme confidential. Without strong pressure from outside, it is hard to implement F&A outsourcing in these companies.

g. Professional skills of F&A staff.

Some accounting staffs are very junior. Most of them even don't have bachelor's degree in accounting or related major. Most of Chinese people think accounting is just book keeping and everybody can do it if they know how to count. The senior manager from the investment banking joint venture points out that in China more senior qualified professionals are needed. The investment banking company she is working in doesn't outsource their F&A functions because they have many CPAs and members of ACCA who are more reliable than outside service providers, per her point of view.

h. Labor cost in China is low.

China's labor cost is low. It is only on average USD9000 a year for some well-educated people. So normally the cost of F&A outsourcing is even higher than the cost of hiring F&A staff to operate themselves. The general manager from a private IT company mentions that currently cost reduction is not the main purpose for his company to outsource. But he also mentions that in recent years, the average salary level has been increased, especially for senior staffs. It is very possible that in the near future cost reduction become the main motivation for Chinese companies to outsource their F&A functions.

6.4 Conclusions

This chapter discusses about the result of the survey on F&A outsourcing in China. First, the basic point of view on F&A outsourcing is discussed. Then China's special circumstance on F&A outsourcing is discussed deeply.

It shows that not all the companies in China are suitable for F&A outsourcing. Apparently, government and state-owned companies are not ready for F&A outsourcing.

The result of F&A outsourcing in Chinese branch may be different from that in other countries due to different local policies in China, language problems, and information technology development level.

China's special culture and circumstance DO have unique impact on F&A outsourcing. For example, the people's traditional thinking, traditional way of managing method of most state-owned companies, accounting staffs professional standard and English level, frequent changes of policies, and low cost of Chinese labors.

Although we have found many factors that hamper the F&A outsourcing development in China, it is also easy to find that most of these situations are improving fast. At least F&A outsourcing is not a new word to Chinese people and companies. We believe that with China's faster development and closer connection to global market, China will welcome its bigger F&A outsourcing market in the near future.

CHAPTER 7. FUTURE RESEARCH

The paper is conducted with survey and interview method. It aims to find out the basic situation of F&A outsourcing in China. We may easily find that more and more companies in China start to accept F&A outsourcing and implement it themselves. Some local accounting software providers even have tried to provide the F&A service as early as year 2000.

This research finds out some unique circumstances in China that has different impact on F&A outsourcing. Since there is gap between Chinese GAAP and international accounting standard, for the companies who want to go global market, they need the professional accounting services. Chinese market needs professional service in finance and accounting with deep local knowledge. This means China needs to educate more and more advanced professionals in this field, and also there is a big potential market for companies that can provide the service.

The level of labor cost in China is different in different areas. The labor cost in eastern costal cities is normally higher than that in western district. Beijing, Shanghai and Shenzhen have the highest salary level. It is possible for big companies to outsource some functions to western areas where the labor cost is low. The research implies that F&A outsourcing has been more and more popular in China. In recently years, Chinese labor cost also has the trend to grow higher. In some industries, some senior professionals' salary has reached the global level or even more. It is not strange that some Chinese companies may outsource some functions to Southeast Asia.

For foreign companies that want to enter Chinese market, it means they have to know about the Chinese regulation and rules first so that they could treat their Chinese branches differently from other branches. For the multinational companies who outsourced their F&A functions as the global strategy, maybe they need to consider to take China office as an exception.

More research is needed to figure out the critical success factors for Chinese companies to implement F&A outsourcing. Case studies on a multi-national company's Chinese branch and a private or state-owned company are necessary.

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APPENDIX I, QUESTIONNAIRE

Finance and Accounting Business Process Outsourcing in China

Dear Sir / Madam,

Welcome you to join the survey on Finance and Accounting Business Process Outsourcing in China. This is the survey from Accounting Department of Swedish School of Economics and Business Administration, Hanken. The main purpose of the survey is to know the situation of Finance and Accounting business process outsourcing in China. We guarantee that the survey will not be used to any projects and will be kept confidential. It will only be used for this research subject.

Your feedback would be very valuable to the result of our survey. As the reward, all the respondents will get the research article about finance and accounting business process in China, containing the result of the survey, which might be useful for CFOs and F&A managers. The article will be available at the end of 2007.

The survey contains two parts. Part I is about the background information of your company and Part II is about your opinion and experience on finance and accounting business process outsourcing in China. If your company has never used F&A business process outsourcing and could only answer the first part, please also feedback to us because it is still important.

I appreciate it very much if you could respond your answers to me in one week.

Sincerely yours,

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PART I. Company's basic information

1. What kind of company are you working in?
 - a. Government
 - b. State-owned company
 - c. Private company
 - d. Multi-national company
 - e. Foreign invested company or Joint Ventures

Answer: _____

2. In which industry is your company?
 - a. Information Technology
 - b. Manufacturing
 - c. Finance / Insurance / Banking
 - d. Government
 - e. Science and education

Answer: _____

3. How many staff is there in your company? If you are working in a multi-national company, please just count staff in Greater China region.
 - a. less than 100
 - b. 100-300
 - c. 301-500
 - d. 501-1000
 - e. 1001-3000
 - f. 3001-10,000
 - g. more than 10,000

Answer: _____

4. How many staff is there in your F&A department?
 - a. 1-3
 - b. 4-10

- c. 11-20
- d. 21-50
- e. 51-100
- f. more than 100

Answer: _____

5. How many cities in China are your company's branches located?

- a. Less than 5
- b. 5-15
- c. More than 15
- d. No branches

Answer: _____

6. Are there F&A department in all your branches?

- a. Yes, have F&A department in all the branches
- b. Some of the branches have F&A department
- c. Only Headquarter of China has F&A department
- d. No F&A department at all

Answer: _____

7. Is your company a public / listed company? Where is it listed?

- a. No
- b. Yes

Answer: _____

8. Which level are you in?

- a. Accountant
- b. Financial analyst
- c. Finance / accounting manager
- d. Finance director
- e. CFO
- f. Management team member but not in F&A function

Answer: _____

PART II F&A outsourcing related

9. Have you ever heard of finance and accounting outsourcing? Where did you hear it from?

- a. I have never heard about F&A outsourcing
- b. From seminar
- c. From business magazine or newspaper
- d. From other companies
- e. Introduction program from outsourcing service provider
- f. From some other channel, please write down below

Answer: _____

10. Have your company ever used F&A outsourcing service?

- a. Never used
- b. Have used, but not now
- c. Plan to use and now is looking for service provider
- d. Is using F&A outsourcing now, the service provider is _____

Answer: _____

11. If any finance and accounting functions in your company have been outsourced to the 3rd party, what are those functions?

- a. Payroll
- b. Account Payable
- c. Account Receivable
- d. Cash flow / Treasury
- e. Tax
- f. Financial Reporting
- g. Management Reporting
- h. Budgeting and Planning
- i. Decision making
- j. Others... if any, please write down below

Answer: _____

12. If your company starts to consider F&A outsourcing, what functions would like to outsource firstly and secondly?

Answer (similar options to question 11): _____

13. What do you think is the main driven power (or motivation) for F&A outsourcing?

- a. Cost reduction
- b. Fast growth or decay of the company
- c. Globalization of the company
- d. Increase the competition ability
- e. Reorganization
- f. Others in any...

Answer: _____

14. What is the purpose for your company to outsource F&A function?

- a. Cost reduction
- b. To get the most updated F&A service
- c. To improve the efficiency and get in-time F&A service
- d. Increase internal control
- e. To get outside professional services to meet strict regulations, both national and abroad, and decrease risk
- f. Others in any...

Answer: _____

15. What is the biggest advantage of F&A outsourcing?

- a. Improve the competition ability
- b. Cost reduction
- c. Risk control
- d. Improve the F&A service level

Answer: _____

16. What are the main worry for you to outsource your finance and accounting function?

- a. Confidential information leakage
- b. The quality of outsourcing
- c. The cost of outsourcing
- d. The outsourcing staff is out of control
- e. The morale of the employee influenced
- f. Any others concerns, please list below.

Answer: _____

17. Do you think outsourcing of your F&A function will increase the corporate risk or decrease it?

- a. Increase the risk
- b. Decrease the risk
- c. Same

Answer: _____

18. Which stage do you think is the most difficult during the F&A outsourcing?

- a. Choose service provider
- b. Contract negotiation
- c. Contract signing
- d. F&A function migration to the service provider
- e. Manage service provider

Answer: _____

19. What kind of companies do you think is suitable for F&A outsourcing?

Industry:

- a. Information Technology
- b. Manufacturing
- c. Finance / Insurance / Banking
- d. Government
- e. Science and education

Answer: Suitable: _____
 Not suitable: _____

Nature:

- a. Multi-national company
- b. State-owned company
- c. Joint ventures
- d. Private company

Answer: Suitable: _____
 Not suitable: _____

20. If you have outsourced your F&A function, do you think it is successful, yes or not, WHY?

- a. Successful
- b. Not successful

Answer: _____

21. *If you are working in a multi-national company and China is one of the offices to be involved in F&A outsourcing, do you think it is different in China to implement it from the other offices? Could you get the same result as other countries?

- c. Same
- d. Different

Answer: _____
 (Please describe as detail as you can since it is very important):

22. *Do you think there is any special circumstance in China that hampers or influences the result of F&A outsourcing?

- a. Yes
- b. No.

Answer: _____

(Please describe as detail as you can since it is very important):

23. Which criteria are most important for you choose the service provider?

- a. good will or big name
- b. price
- c. quality
- d. professional

24. If you have outsourced some or all of your F&A functions, when the service contract is due, what will you do?

- a. Renew the contract
- b. Terminate the contract and choose another service provider
- c. Move some outsourced service to in house again
- d. Stop the outsourcing

Answer: _____

25. What is the influence to your F&A staff due to the outsourcing, both positive and negative, such as lay off, morale influence, being promoted, going to service provider, etc.?

Answer: _____

26. Some other comments:
