

## OUTSOURCING CFO ACTIVITIES AS A COMPETITIVE ADVANTAGE

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### Abstract

*Traditionally companies focus on their core competencies when talking about efficiency and increase in performance. To achieve a certain aid of performance and make resources and knowledge available companies turn to outsourcing in traditional form and to strategic knowledge outsourcing. Can the support services / non-core activities be a successful driver of innovation through outsourcing? This paper is trying to show that the outsourcing of non-core activities can be a driver and alternative towards innovation and competitive advantage that can make a difference in the today's complex globalized markets.*

**Key words:** *outsourcing, competitive advantage, support services, CFO*

**JEL classification:** M10, M21

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### 1. Introduction

Because of the recent cyclic economic turmoil and because of increasing globalization and competitiveness companies have to become more and more innovative and bold in protecting their business. Under increasing market pressure and complexity companies have to focus also on the support services, on the non-core activities that can make a difference in the ever complex today's globalized markets. In business organizations the “classical” representative of support services or non-core activities is the CFO (Chief Financial Officer). Can this executive organizational role be subject to

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outsourcing? Can an organization afford to outsource the CFO role? What are the benefits of this kind of outsourcing?

The globalization, the economic cycles and economic crisis determined companies compete for less and less available resources and clients, it determined them to be more and more competitive. This increased competitiveness has driven some companies to look for more innovation in their current business processes that showed their inefficiency due to the increased globalized market pressure, impact of information technology and increase in business complexity.

One solution to solve the innovation need and the scarce expertise is by outsourcing the need for specialized knowledge for innovation of the support services / non-core activities. In order to obtain the maximum of benefits and profits from the externalization process the “classical” outsourcing must transcend towards strategic outsourcing of expert knowledge and experience and move away from only looking at the cost perspective.

Outsourcing is the sourcing to the outside of the own organization of work, responsibilities and/or decisions in the same way as managers delegate their work and responsibilities (Power, Desouza and Bonifazi, 2006). Heywood claims, the object of outsourcing are inter- company business functions, activities and processes as well as the respective assets which are handed over to a third-party service provider who is specially qualified to perform these services within a specified time period and at an agreed competitive price (Heywood, 2001).

In the today’s more and more competitive service and knowledge based economy companies have several alternatives to gain the ever needed competitive advantage and increase profits through shifting from the “classical” outsourcing towards the knowledge based outsourcing (Quinn J.B., 1999). The focus has to shift from the traditional approach of outsourcing industrialized goods and services towards the outsourcing in the direction of intellectual value and not just costs. One way of achieving this is by having a long term, clear and sustainable strategic vision and understanding of the core values and activities of your company.

## **2. Traditional business process outsourcing**

The driver for the knowledge based services outsourcing has led to booming of the today's BPO (Business Process Outsourcing) industry. The BPO industry provides state of the art standardized business services with the best cost advantages possible for the client companies. The rendered services are "industrialized" services that are delivered more in the off the shelf way with too little or no customization to the customer needs. BPO companies try to standardize and automatize as much as possible their services so that the maximum of profit is achieved for themselves and for their clients. To keep the most competitive costs for their services the BPO organizations usually have moved their operations centers in low cost countries that allows them through the usage of the modern communication technologies to have a worldwide presence.

Time has shown that business process outsourcing has clear competitive advantages (standardized service delivery, known costs for outsourced transactions, no headcount for certain support activities) and sure disadvantages (lack of customer focus, hidden costs, loss of managerial control) that cannot be solved by the "traditional" business process outsourcing approach. The downside of the "classical" BPO is the shift from simple activities to more complex activities that are represented by the knowledge process outsourcing (Richtner, Rognes, 2013). Practice has shown that business processes are evolving, changing and adapting to the companies external and internal environment. The typical business process has components that contain both explicit and tacit elements. In theory the explicit elements can be scripted, standardized and outsourced but the tacit elements are "learned" by absorbing the organizational culture (Richtner, Rognes, 2013).

## **3. Knowledge based services outsourcing**

The knowledge based services outsourcing is an extension and improvement of business process outsourcing, with emphasis on business complexity and customer concentration. While the knowledge based services outsourcing is mainly determined by the cost aspects it has also other

important determinant elements like shortage of skilled labor in the home market, increase in mobility of knowledge resources, potential of additional economic value creation, cost reduction and leaps in information and communication technology.

To be able to harvest all the benefits of the knowledge based services outsourcing a detailed assessment of strong and weak points is needed as well a clear segregation of core-activities and non-core activities. The outputs of knowledge based services outsourcing are critical business information topics that are relevant in terms of market competition or are integrated in the company's value flow and require analytical and technical assistance as well as a high degree of dedicated knowledge.

The information revolution is transforming the nature of competition (Porter & Millar, 1985). The current and future businesses will rely more and more on having the right information at the right time. Having the right information at the right time you as company management are able to act upon that information and assure the much needed competitive advantage for your company.

Business executives increasingly understand that outsourcing for short-term cost-cutting does not yield nearly as much as long-term knowledge based systems or benefits (Quinn J.B., 1999). In the unfolding knowledge-based economy, services do matter. But while they are increasingly seen to play a pivotal role in innovation processes, there has been little systematic analysis of this role (Hertog, 2000).

#### **4. Knowledge management**

One of the elements that drives companies in the 21-st century economy is the drive towards innovation that allows them to compete in the world globalized markets. The foundation of innovation is knowledge that resides within organizations and their employees. To be able to capitalize on the accumulated explicit and tacit knowledge companies have to make sure that knowledge is managed properly so that benefits and profits are maximized. More and more assimilated to the management function is the management of information, the management of knowledge. From the today's point of view knowledge

management requires technology, business strategy, and people. It is the process of capturing the collective knowledge of the organization, analyzing it and transforming it into easily recognizable forms for mass consumption, and communicating the results to the organization by means of a readily accessible vehicle (Ogrea, C., 2006).

According to P. Drucker, there are at least two major aspects which make the managerial revolution different: (1) its speed – as well as the two prior revolutions, the managerial revolution swept away the entire globe. It took 100 years, from middle 18-th century till middle 19-th century for the industrial revolution to become dominant and global; it took about 70 years, from 1880 till the end of the world war two for the productivity revolution to become dominant and global; but it took less than 50 years – from 1941 till 1990 – for the managerial revolution to become dominant and global; (2) the fact that now knowledge are systematically applied in the purpose of defining what new knowledge is necessary, if it is feasible, and what has to be done in order to make the knowledge efficient; in other words, knowledge is applied to the systematic innovation (Ogrea, C., 2006).

### **5. Competitive advantage**

The foundation of achieving competitive advantage is a thorough well-made strategic plan and the corresponding set goals and objectives. Therefore, all internal and external potentials and factors of achieving competitive advantage have been reviewed and analyzed. The shortage in expertise and knowledge is covered by outsourced knowledge based services that allow companies to focus on achieving and developing value in their core and non-core activity. By this additional value developed and assimilated by the core and non-core activity through outsourcing knowledge based services companies make sure that they create the potential and premises for competitive advantage.

It is not necessary for company to dispose all essential resources, but it is imperative to have control over those resources, which are ultimate for core competence creation (Snieška, Drakšaitė 2015).

The today's development in information technology has led to a change in concept and understanding of the value flow of the business organizations. It

is also affecting competitive scope and reshaping the way products meet the buyers need (Porter & Millar, 1985).

Therefore, the competitive advantage can be observed in the case of knowledge based services outsourcing on both sides of the business transaction, supplier and client. On the knowledge based services outsourcing supplier side the competitive advantage is in the central ability of the supplier to provide one of a kind knowledge and client company centric services with a high degree of particularization. Usually this kind of suppliers have a very high degree of expertise and knowledge that is backed by practical unique business experience.

The clients side of the knowledge based services outsourcing has first taken the decision to do something about the current state of operations and gain a certain advantage. Based on that still not very clearly defined issue the client decides to go the extra mile and is benefiting from the unique knowledge and high degree of expertise of the supplier. The difference compared to the other companies is made out of the unique solution acquired through the outsourcing.

## **6. CFO activities outsourcing**

Coming back to the constant need of business organizations to be on the constant search for innovation and improvement to be successful the extra step done towards pursuing this goal is the very clear and accurate segregation of core - and non - core activities. By this clear and not so easy task of classification of the business activities companies can also focus on their core knowledge and increase its efficiency and not redistribute the scarce company resources to non-core activities.

Typically, the CFO (Chief Finance Officer) is responsible for all non-core company activities. This is coming from the fact that the CFO, by definition of the role, is in charge with the steering and assurance of the support processes and activities of the business. The main outcome of the CFO's activity is providing business information, by analyzing the past performance and by aggregating and steering present and future business actions, to the shareholders, CEO, the drivers of the business.

The key point in this aspect is the timely and efficient communication of business information to the one in charge with the external actions of the company. The basic principles behind the financial and business information are not business specific ergo the CFO activities that are represented by the sum of all company support services are non-core activities. Every action undertaken and / or managed by the CFO is in sync with the business opportunities capitalization. The CFO in business organizations is one of the very few that contributes to and influences the strategic business planning and has also all details of the values involved in this plan.

Therefore, outsourced CFO activities are high value knowledge based specific and unique activities that if provided to client companies bring the certain change, the uniqueness that can make a difference and can create the decisive advantages in the quest for profits and innovation. By their nature outsourced CFO activities are individual services that are customer needs centric meaning that by rendering they create directly and decisively the competitive sustainable advantage for their client company.

More and more knowledge based services outsourcing providers provide very specific high value business services that transcended the “classical” BPO outsourcing where commoditized services are delivered. The specificity of the provided knowledge based services are by itself the competitive advantage for any client company. The knowledge based services outsourcing provide all the advantages of the classical BPO plus the unique value proposed and delivered by the outsourcing providers in due time and at a higher value for the client company.

## **7. Conclusion**

In the ever-changing and fast moving business environment to think outside the box makes the difference and can bring a decisive business advantage for any business organization. Regardless of financial power and resources companies can benefit from the strategic outsourcing of knowledge based services the same as acquiring standardized products or services.

The conception of knowledge outsourcing presents qualitatively new attitude concerning pattern of competitiveness improvement, which includes receiving

(by using knowledge outsourcing) knowledge instead of the products. By employment of outsourcing, the innovative way to manage the strategically important functions of company emerges. The prospective of the method is sustained by the fact that the participants of the global economy recently pay more attention to trade in services instead of trade in products (Snieska, Drakšaitė 2015).

We have already seen how, following the long term growth trend, information technology outsourcing (ITO) and business process outsourcing (BPO) expenditure is set to rise continually in the 2012-2018 period. The interesting feature is that BPO is and will grow at a faster rate than ITO, with BPO expenditures rising across the board in areas such as the human resources function, procurement, back-office administration, call centers, legal, finance and accounting, customer facing operations and asset management. BPO is outpacing ITO because many executives recognize that they undermanage their back offices and do not wish to invest in back office innovations (Oshri, Kotlarsky, Willcocks 2015)

Outsourcing of CFO activities are the perfect example of gaining of competitive advantage by benefiting of high value knowledge and expertise at the fraction of a cost that can make a significant difference in the business competition. One of the additional benefits that comes with the clear segregation of core – and non-core activities is that by doing this process inefficiencies in form of activities and subprocesses become visible and require business judgement.

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