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THE SARBANES-OXLEY ACT: DETERRENT OR AID TO FINANCE AND ACCOUNTING OUTSOURCING?

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THE SARBANES-OXLEY ACT: DETERRENT OR AID TO FINANCE AND ACCOUNTING OUTSOURCING?

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ABSTRACT

The Sarbanes-Oxley Act has had a significant impact on the accounting profession since its enactment in 2002. Compliance costs have increased and the nature of the internal audit function has changed somewhat to accommodate the requirements of the Act. This article examines the effect the Sarbanes-Oxley Act has had on the outsourcing of accounting services and data control and security issues that result from outsourcing accounting services. The authors report on interviews conducted of outsource company executives in India, focusing on data security concerns and financial controls.

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INTRODUCTION

In 2002, there was a lot of concern surrounding offshoring of financing and accounting services¹ due to the stringent reporting requirements imposed by the newly enacted Sarbanes-Oxley Act.² Section 404 pertains to management's assessment of internal controls and requires a company's annual report to include an internal control report of management containing:

- A statement of management's responsibility for establishing and maintaining adequate internal controls and procedures for financial reporting;³
- The conclusions of management about the effectiveness of the company's internal controls and procedures for financial reporting based on management's evaluation of those controls and procedures;⁴ and

¹¹¹ The present study focuses on the effects of the Sarbanes-Oxley Act (SOX) on the outsourcing of certain accounting and finance services. Outsourcing of tax services is not covered by SOX. However, SOX does restrict the amount of tax work the independent auditors can perform. See Pinney L. Allen & Saba Ashraf, *The changing landscape for tax and other services: The impact of Sarbanes-Oxley*, 30 CORP. TAXATION 37-44 (Jan/Feb. 2003).

The outsourcing of tax services presents some ethical issues, such as competence and confidentiality. For discussions of these points, see Jayanti Bandyopadhyay & Linda A. Hall, *An Investigation of Off-Shoring of Tax Preparation Services by U.S. Accounting Firms*, 6 COMPETITION FORUM 411-423 (2008); Richard G. Brody, Mary J. Miller & Michael J. Roller, *Outsourcing Income Tax Returns to India: Legal, Ethical and Professional Issues*, 74 CPA J 12-14 (Dec. 2008); Carly Lombardo, *Outsourcing tax prep is in, in, in*, 19(4) ACCT. TECHNOLOGY 26-29 (2003).

The Sarbanes-Oxley Act also has an effect on the outsourcing of information technology. For discussions of this effect, see James A. Hall & Stephen L. Liedtka, *The Sarbanes-Oxley Act: implications for large-scale IT outsourcing*, 50 COMMUNICATIONS OF THE ACM 95-100 (Mar. 2007); William Brown & Frank Nasuti, *What ERP systems can tell us about Sarbanes-Oxley*, 13 INFORMATION MGMT. & COMPUTER SECURITY 311-325 (2005). Some firms have increased the outsourcing of the information management function to comply with Sarbanes-Oxley reporting requirements. See Nikki Swartz, *Small Firms Seek Different SOX Rules*, 40 INFORMATION MGMT. J. 6-7 (Jan./Feb. 2006).

² Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745 (Codified at 15 U.S.C. §7219).

³ *Id.*, §404(a)(1).

- A statement that the registered public accounting firm that prepared or issued the company's audit report relating to the financial statements included in the company's annual report has attested to, and reported on, management's evaluation of the company's internal controls and procedures for financial reporting.⁵

Title IX of the Act consists of several sections. This title is also called the *White Collar Crime Penalty Enhancement Act of 2002*.⁶ Title IX increases the criminal penalties associated with white-collar crimes and conspiracies. It recommends stronger sentencing guidelines and specifically adds failure to certify corporate financial reports as a criminal offense.⁷ In light of these conditions, the Finance and Accounting outsourcing (hereafter FAO) providers have to familiarize themselves with the varying degrees of SOX compliance demands, which vary extensively from client to client.⁸ A survey by the Economist Intelligence Unit conducted on behalf of Accenture Finance Solutions

⁴ Id., §404(a)(2).

⁵ Id., §404(b). A related issue is the effect that the Sarbanes-Oxley Act has on the internal audit function. For a discussion of this point, see Lawrence J. Abbott, Susan Parker, Gary F. Peters & Dasaratha V. Rama, *Corporate Governance, Audit Quality, and the Sarbanes-Oxley Act: Evidence from Internal Audit Outsourcing*, 82 THE ACCT. REV. 803-835 (2007) [Outsourcing certain internal audit functions may impair the independence of the external auditor and may affect the corporate audit committee.].

⁶ Id., §901.

⁷ Id., §906.

⁸ Not all regulation of the accounting and other professions is by government. The private sector also regulates the various professions. In the case of the accounting profession, for example, the Financial Accounting Standards Board, a private sector organization, sets accounting standards in the United States. The American Institute of Certified Public Accountants (AICPA) formerly held this role and still provides some guidance. The International Accounting Standards Board (IASB) is the private sector organization that sets International Financial Reporting Standards. Although the private sector usually does a good job of regulating the various professions, private sector regulation has come under criticism from time to time. For example, see Sidney A. Shapiro, *Outsourcing Government Regulation*, 53 DUKE L.J. 389 (2003).

determined that greater emphasis on corporate governance and increased direct control of finance processes was acting as a deterrent to outsourcing of finance functions.⁹

SOX AND OUTSOURCING OF ACCOUNTING SERVICES

Although outsourcing of routine accounting functions is gaining momentum, the passage of the Sarbanes- Oxley Act¹⁰ has engendered uncertainty among the top executives in finance departments because of its increased emphasis on financial controls, making it imperative to reconsider the functions that should be outsourced.¹¹ The FAO markets, being in their nascent stages, are confronted with unique constraints and risks that are absent in mature IT outsourcing markets.¹² Findings from the core competency literature seem to suggest that the finance function should not be outsourced. Efficient firms allocate their own resources to those activities within the value chain for which they enjoy a comparative advantage over competitors¹³.

Though there is debate in the outsourcing literature regarding the precise definition of a core function, there is widespread agreement that how core a function is

⁹ *Accenture Finance Solutions Report* (2004), at www.accenture.com.

¹⁰ Pub. L. No. 107-204, 116 Stat. 745 (Codified at 15 U.S.C. §7219).

¹¹ The Sarbanes-Oxley Act created the Public Company Accounting Oversight Board (PCAOB) www.pcaobus.org, a private sector organization, to oversee the private audit function. One question that has since been raised is what part of the audit function can be outsourced? For a discussion of this point, see Brian Daugherty & Denise Dickens, *Offshoring the Independent Audit Function*, 79 CPA J. 60-65 (Jan, 2009).

¹² Dan Masur, *Finance & Accounting Outsourcing Market Overview and Analysis of Leading Service Providers*. FINANCE & ACCOUNTING OUTSOURCING MARKET OVERVIEW AND ANALYSIS OF LEADING SERVICE PROVIDERS (2006), at http://www.outsourcingcentral.com/Provider/Articles/ft_article_det_fpage.asp?Channel_id=7&TextSearch_id=0&Story_id=36.

¹³ John K. Shank & Vijay Govindajaran. *Strategic cost management: the value chain perspective*. 4 J. MGMT ACCT. RES. 179–197 (1992).

should have a bearing on whether or not to outsource it¹⁴ Quinn¹⁵ suggests that those activities, usually intellectually-based service activities or systems, which the company performs better than any other enterprise are core. Activities that are not core competencies should be considered for outsourcing with best-in-the-world suppliers, though some non-core activities may have to be retained in house if they are part of a defensive posture to protect competitive advantage.¹⁶ The above argument supports the proposition that accounting and finance are functions that should be kept in-house even though they are not core functions, due to their proximity to the core.¹⁷

Due to the wave of high profile accounting scandals such as Enron,¹⁸ MCI, Global Crossing¹⁹ and WorldCom,²⁰ business executives have heightened their concern towards the completeness and accuracy of the financial reports that they publish.²¹ There are,

¹⁴ James Brian Quinn, *Strategic outsourcing: leveraging knowledge capabilities*. 40 SLOAN MGMT REV. 9-21 (1999).

¹⁵ Id.

¹⁶ Peter Gottschalk & Hans Solli-Saether, *Critical success factors from IT outsourcing theories: an empirical study*, 105 INDUSTRIAL MGMT & DATA SYS., 685-702 (2005).

¹⁷ According to John K. Halvey, renowned sourcing advisor and Partner at global law firm Milbank, Tweed, Hadley & McCloy LLP "The closer you get to the core of the operation, the harder it is to get the decision made to outsource...and you don't get much closer than the finance function which is why this market has taken longer to evolve than some other BPO areas." Available at http://www.faoresearch.com/images/ServicesOutsourcingWorld_March_06.pdf

¹⁸ Neal Newman, *Enron and the Special Purpose Entities --- Use or Abuse? --- The Real Problem --- The Real Focus*, 13 L. & BUS. REV. OF THE AMERICAS 97-137 (2007); Kathleen F. Brickey, *In Enron's Wake: Corporate Executives on Trial*, 96 J. CRIM. L. & CRIMINOLOGY 397-433 (2006); Thomas Clarke, *Accounting for Enron: shareholder value and stakeholder interests*, 13 CORP. GOVERNANCE 598-612 (2005).

¹⁹ Susan J. Stabile, *Enron, Global Crossing, and Beyond: Implications for Workers*, 76 ST. JOHN'S L. REV. 815-834 (2002).

²⁰ Warren G. Lavey, *Responses by the Federal Communications Commission to WorldCom's Accounting Fraud*, 58 FED. COMM. L. J. 613-682 (2006).

²¹ Mark L. Defond, Rebecca N. Hann & Xuesong Hu, *Does the Market Value Financial Expertise on Audit Committees of Boards of Directors?* 43 J.ACCT.RES. 153-193 (2005).

consequently, serious apprehensions about FAO due to the increased possibility of loss of control, which in turn could weaken corporate governance and result in breaches of compliance with regulatory requirements. This argument may lead one to conclude that FAO may not be the optimum alternative in the long run, reducing its significance to a fad. On the other hand, statistics indicate that the global FAO market has grown by more than forty-five percent since the beginning of 2005 and is predicted to grow in excess of thirty percent in 2007.²² According to the Everest Research Institute, offshoring FAO functions can reduce costs of the F&A function by 30-40 percent.

The significant savings and higher acceptance of offshoring is creating a compelling reason to outsource. The Everest Research Institute also reports two-thirds of the total FAO contract value signed to date has yet to be collected signifying the youth of this market. Due to low entry barriers, additional new suppliers are predicted to enter the market every year.²³ From an overall management system perspective, the implications of the SOX requirements are quite similar to other quality and regulatory requirements. They contain well-defined management system and processes, proactive approach to problem and risk management, clearly defined responsibilities for implementation, and self-assessment and appropriate checks and balances. If the provider has to sustain its competitive advantage, it will have to establish clear lines of accountability and conduct periodic compliance review of controls.

Service level agreements will have to be established that support defined processes and key compliance requirements. These steps will lead to an outsourced environment that seems to provide more clearly defined and transparent business

²² www.faoresearch.com.

²³ www.outsourcing-finance-and-accounting.com.

processes than the in-house processes that have evolved over time. The senior management personnel of FAO service providers recognize SOX compliance as important and agree that perceptions regarding the failure of a company being able to meet SOX requirements have to be managed in order to ensure the long term success of FAO. Consequently, we see that by the end of 2004, SOX compliance ceased to be viewed as a barrier and contract signings soared.²⁴ In 2004, there was a marked increase in FAO since the market realized that FAO did not hurt the ability to meet Sarbanes-Oxley compliance, but in fact FAO actually helped with SOX compliance.²⁵ Now companies have a better understanding of what SOX is and how to achieve compliance. However, understanding the relationship between SOX and FAO is still not widely known²⁶

PRESENT STUDY

According to an Accenture Finance Solutions/Economist Intelligence Unit study, outsourcing and effective governance can co-exist. Forty-three percent of the respondents who had already outsourced a finance process thought outsourcing raised the quality of governance and compliance at their organizations.²⁷ It is important to know whether suppliers are aware of the implications of SOX compliance and whether the increase in contract signings in 2004 was a direct result of deliberate efforts towards overcoming

²⁴ www.outsourcing-center.com.

²⁵ Paul Nowacki & Sonal Singla, *Increasing Regulatory Requirements Create a Stronger Case for F&A Outsourcing* (2006), at <http://www.outsourcing-center.com/>, June 2006.

²⁶ Paul Nowacki & Sonal Singla, *Increasing Regulatory Requirements Create a Stronger Case for F&A Outsourcing* (2006), at <http://www.outsourcing-center.com/>, June 2006.

²⁷ Beth Rosenthal, *Do Companies Lose or Improve Controls When They Outsource Financial Processes? An Accenture/Economist Study Finds Out* (2005), at outsourcingfinanceandaccounting.com.

SOX related barriers. In order to combat the obstacles that SOX may present, the service providers have to be aware of this challenge and institute processes to overcome it. In order to gather further insight directly from the suppliers to understand how they were addressing these issues, a study was conducted that involved interviewing managers of three leading FAO service providers located in India.

The three service providers were selected from a list of the top fourteen service providers that was compiled by FAO research, Inc. based on the criteria that full-scale finance and accounting outsourcing services were provided on a global basis for a number of years and strong growth in the arena was demonstrated by winning multiple, brand-name engagements over the past two years²⁸ The criterion for ranking the largest players in the market was their dominance in serving segments of the FAO markets.

Table one below provides details about the fourteen leading FAO service providers.

Table 1. List of fourteen largest FAO service providers²⁹

Name of Provider	Revenues (2005) (Amounts in US dollars)	Staff Size	Number of countries in which the company is present	Ownership Status
Accenture	16.65 billion	146,000	49	Public (ACN)
ACS	5 billion	55,000	100	Public (ACS)
EDS	20 billion	100,000	60	Public (EDS)
ExlService	95 million	5000	15	Private
Genpact	135 million	19000	8	Private
Hewlett-Packard	85.2 billion	4000	50	Public (HPQ)
IBM	88.3 billion	6000	48	Public (IBM)
OPI	Not available	1000	2	Private

²⁸ Lisa Ross (2006) *Taking a Survey of the FAO Supplier Landscape*. FAO TODAY Jan/Feb.

²⁹ www.fao.com.

Perot Systems	1.8 billion	17,000	20	Public (PER)
Progeon	75 million	5700	8	Private (Infosys Public: INFY)
TCS	2.24 billion	400	10	Private (Public in India)
Wipro	1.5 billion	42,000	23	Public (WIT)
WNS	165 million	9000	3	Private
Xansa	130 million	13,000	40	Private (Public

The interviewees were given a list of factors identified through extant literature as areas of concern that must be attended to in order to ensure the longstanding success of FAO providers. These factors emphasized a client's corporate governance, compliance, risk adversity, and competition. The factor emphasizing client's corporate governance consisted of sub-questions that probed a deeper understanding of the service provider's approach in developing a well documented plan to understand and address every individual client's corporate governance mechanisms. The questions were aimed at understanding whether the service providers were making any conscious attempts at improving their client's quality of financial reporting and whether there was an emphasis on building long-term trustworthy relationships with the clients. The second factor, compliance, aimed to understand the procedures that were in place to dispel the client's fear that outsourcing could lead to breaches of compliance with regulatory requirements, particularly the Sarbanes-Oxley Act requirements.

Questions were also asked to determine if the provider had any SOX related compliance measures in place. The interviews were tape recorded and transcribed. The typical interview was sixty minutes; the length varied from thirty minutes to ninety minutes. Members of the top management team as well as managers at operational levels were interviewed. The interviewees were assured that their identity would be concealed

to ensure confidentiality. The fundamental issue under examination is whether the passage of SOX has proved to be a deterrent or an aid to the future growth of FAO. Table 2 lists the type of interviewee and the number of interviews.

Table 2. Interviewee type and number of interviews			
Interviewee	Interviewee number	Designation within organization	Number of Interviews
<i>Provider One:</i>			
Director Process and Quality	201	Top management	1
Vice President Global Services	202	Top management	1
SBU-manager	203	Operations	1
Director Finance & Accounting	204	Top management	1
<i>Provider Two:</i>			
Head- Solution Design & Implementation – Finance & Accounting	205	Top management	1
Principal consultant - SDI	206	Operations	1
<i>Provider Three:</i>			
Associate Vice President	207	Top management	1
Senior manager	208	Operations	1
Total			8

Reputed service providers boast improved process management, stringent process controls, improved process documentation, and oversight which can facilitate greater Sarbanes-Oxley compliance. Many FAO providers have hired internal control and/or audit specialists who formerly served the global audit firms, on their BPO leadership teams. In addition, service providers undergo SAS 70 audits, apply Six Sigma principles, and have various certifications such as ISO and BSI, which helps bring new layers of controls and process discipline that most internal business units simply do not have. The

elaborate systems present at the service providers represent investments in sophisticated systems that would be prohibitive for individual clients to make on their own. An outsourced environment may lead to centralization of activities and control points, making it easier to manage and monitor controls.³⁰ This paradox can be understood better by interpretation of the responses elicited from the interviews. The manager of one FAO service provider claimed,

“SOX is not a block. In fact, we welcome SOX because of what it has done for us. It has brought some level of documentation into our clients’ organization. Four years ago, if you visited the clients’ organization, you had to start from scratch to understand the process workflow. Nobody understood how the processes were carried out other than those who were involved in executing the processes. It has introduced a system of checks and balances similar to those required when data is outsourced. When the process is outsourced, a system of checks and balances is instituted to ensure the outsourcer is doing what they are supposed to do. Therefore, SOX, I would say, has not impeded but accelerated outsourcing. Secondly, it simplifies the CFO’s job. If we certify to the CFO that we are complying with SOX process by conducting a SAS 70 audit³¹ of our processes

³⁰ Karen Ikeda, *Secrets to SOX and Outsourcing What you should know about Sarbanes-Oxley and outsourcing your F&A processes* (2005), at www.faotoday.com

³¹ Statement on Auditing Standards (SAS) No. 70, *Service Organizations*, is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A service auditor's examination performed in accordance with SAS No. 70 ("SAS 70 Audit") is widely recognized, because it represents that a service organization has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and related processes. In today's global economy, service organizations or service providers must demonstrate that they have adequate controls and safeguards when they host or process

and we share those reports with the client, it helps them to certify to their auditors that their processes are SOX compliant. I would reiterate that regulatory issues with SOX compliance have not impeded us but it has in a way helped in increasing the outsourcing.”³²

The manager further explained that so long as the right controls were in place and there was enough visibility to help ensure that those control were being maintained, it really did not matter whether the service provider performed the process or the client. As a part of the transition, each of the clients’ SOX controls were identified to determine whether the control should be passed to the service provider or it should stay with the client or run by both jointly. Results of an Accenture Finance Solutions/Economist Intelligence Unit study confirmed the above viewpoint. Eighty-two percent of the participants³³ of this study felt the most important success factor was the establishment of service level agreements (SLA). Assigning clear lines of accountability was considered as important while 73 percent believed this factor was critical to outsourcing success. More than half the respondents believed there had to be systematic status reporting, continuous evolution of the control framework, and real penalties for failure to meet SLAs to ensure

data belonging to their customers. In addition, the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports even more important to the process of reporting on the effectiveness of internal control over financial reporting.

³² Supra, Table 2, Interviewee No. 205.

³³ How the study was done: The Economist's Intelligence Unit conducted the studies, talking to 203 CEOs and CFOs from across the globe. Forty-two percent were from Western Europe, 23 percent for North America, 16 percent from Asia-Pacific; 8 percent from Eastern Europe; 6 percent from Africa or the Middle East; and 5 percent from Latin America. More than half the companies surveyed had annual revenues of less than \$500 million; 17 percent had annual revenues of more than \$8 billion. The participants filled out a questionnaire online and then answered questions over the phone in June 2004.

governance was up to par. The bottom line: outsourcing F&A leads to greater, not less control³⁴

Outsourcing as a Means to Strengthen Internal Controls

The senior manager of F&A at the third service provider reasoned that “Five years before the enactment of SOX, we had already implemented a process whereby a person working on an accounts payable process could not be the only person reviewing it or being in charge of authorizing payments as well. These tasks were divided among different people so unless there was active collusion among people, it was difficult to commit fraud. When you actually get into an offshoring scenario, you have the flexibility to build those checks and balances in your process and re-engineer your process. Thus, the authorization above a certain amount may be kept onshore while the actual process is offshored. The physical separation of the two by 5000 miles brings greater transparency and more knowledge about the process... so it could be an argument that in fact you are kind of helping in enforcing SOX compliance than making it more difficult.”³⁵

As elaborated by the head of solution design and implementation - F&A at the second service provider:

³⁴ Beth Rosenthal, *Do Companies Lose or Improve Controls When They Outsource Financial Processes? An Accenture/Economist Study Finds Out* (2005), at outsourcingfinanceandaccounting.com.

³⁵ Supra, Table 2, Interviewee No. 208.

“This process generates an “as is” SOX control mechanism and a “to be” SOX control mechanism. Once the “to be” SOX control mechanism is in place, the service providers have to make sure that the controls are maintained to that level. For example, we are in the midst of a transition of the F&A function for a banker. We have approached their external auditors with a set of “to be” controls. We make sure they are comfortable with the controls that are being transferred to us and the manner of testing employed by us. To conclude, I think the greater block to outsourcing is not Sarbanes-Oxley but the company manager’s perceived loss of control.”³⁶

The above discussion was reinforced by the Accenture Finance Solutions/Economist Intelligence Unit study, which points out improved control "doesn't happen by accident."³⁷ It happens when both parties "agree ahead of time on key service levels and establish clear lines of accountability."³⁸ The study also pointed out that another benefit of outsourcing was to escalate key issues so the two parties could solve them jointly.³⁹

What is Perceived Loss of Control?

The above discussion shifts the focus from SOX as the major roadblock to FAO to fear of loss of control over functions that are closer to the core. The clients that have

³⁶ Supra, Table 2, Interviewee No. 205.

³⁷ *Accenture Finance Solutions Report* (2004), at www.accenture.com.

³⁸ Id.

³⁹ *Accenture Finance Solutions Report* (2004) available at www.accenture.com

been with the company for a number of years are reasonably comfortable and knowledgeable about the security of data and control over processes. The service providers have systems that ensure that the client still maintains control on quality standards by conducting their own audits. Outsourced operations are subjected to regular monthly, quarterly audits and soft compliance reviews. The Vice president of the first service providers testifies to the fact that loss of control is not a major concern for their clients:

“No they do not lose control at all. For example, Client X is a major client and they put their own people on our floor. We give them space. They are on Client X’s payroll but work with us. Client X likes to ensure that they have control over their matters.”⁴⁰

Further, the Vice president asserts that clients need not fear the loss of control because outsourcing of financial reporting simply involves the conversion of client data into information. The decision making power remains with the company’s management.

“Some companies may look at it as loss of control while some companies may think of it as a practical and strategic matter. One could say that I cannot make sense of ten sheets of data sitting in my office but if someone can tell me in one page on a daily basis where my business is at, I may love that. They still don’t lose control over their organization. We are only doing transactional work by converting data into information thus

⁴⁰ Supra, Table 2, Interviewee No. 202.

providing them with decision making capability. We don't make the decisions for them.”⁴¹

Thus, alleviating client risk adversity is recognized by this service provider as an important factor that will ensure survival of FAO markets. The top management at the second service provider though recognizes fear of loss of control as one of the major impediments to the growth of F&A outsourcing. The head of F&A solution design and implementation at this service provider explains his concern below:

“I think the biggest block we faced with outsourcing was the perceived loss of control. I say its perceived loss of control because the way we work is a lot more structured and controlled than at the client's location. We are bound by high service levels while the client's internal team does not have to achieve any service levels.”⁴²

The reason the service provider describes the loss of control as ‘perceived’ is due to the fact that the loss of control may not be real but only a perception of the management. Whether the finance and accounting function is situated within the company or outsourced does not dictate whether it is more or less structured and controlled. Due to high service levels mandated by agreement, an outsourced environment maybe more structured since internally there are no service levels to achieve.

⁴¹ Supra, Table 2, Interviewee No. 202.

⁴² Supra, Table 2, Interviewee No. 205.

The head of F&A solution design and implementation at the first service provider further explained the perception of loss of control as

“If you have something right in front of your eyes you feel more comfortable than when you have someone operating 10000 miles away with two oceans between you. There is a tendency to worry whether things are fine. This is how I would describe perceived loss of control. The way we try to overcome it is A) we share with our clients in detail the processes that will be followed to give them a clear picture. (B) We share with them periodic reports on what and how are we doing. For them, it should be just as if it is their own team of people situated in an offshore location.”⁴³

The Vice president of the third service provider⁴⁴ elaborated the client’s perception of losing control as reluctance to outsource some processes while outsourcing others. There are processes that are not outsourced in the first year but take at least three to four years to outsource. The service provider has to build a long term relationship and gain trust by performing certain processes as proof of performance. The client confirms that the service provider can handle the outsourced process for three to six months. Complete control is usually relinquished only if the client gains a sense of comfort. The director of F&A⁴⁵ at the first service provider corroborated the discussion above. She

⁴³ Supra, Table 2, Interviewee No. 205.

⁴⁴ Supra, Table 2, Interviewee No. 207.

⁴⁵ Supra, Table 2, Interviewee No. 204.

explained that performing analytical data reviews and providing business intelligence would be the major opportunities for growth in the future.

The above discussion provides insights into the challenges that are faced by the service providers in FAO for long term survival of the industry. Though SOX has been identified as a threat to the growth of FAO, alleviating client risk adversity may be actually be a more important factor to ensure survival of FAO markets. There are many potential risks confronting outsourcing agreements. These risks can fall into one of three categories: legal, operational and financial. After identifying the risks, the next action is to determine their relative importance to one another and their respective probability of occurrence. In FAO markets, the prime risks are confidentiality and security of data and fear of loss of control over processes.⁴⁶ The major threat to FAO posed by SOX has been dealt with effectively by the service providers and is no longer a deterrent to outsourcing. Providers must concentrate on managing the risks associated with security of data and perception of loss of control that have been identified as the primary deterrents to outsourcing of finance and accounting services.

⁴⁶ Finance and Accounting Outsourcing Market Review Report (2005), at www.faoresearch.com.