



Outsourcing Financial Services in Finland by small and mid-size Companies

Sudarshan Koirala
Mahfuj Alam Khan

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<p>Abstract:</p> <p>Outsourcing is the act of transferring company's recurring internal non-core activities and decision rights to outside providers. It is assumed as boon for small and mid-sized companies to reduce and control their extra costs and to increase overall performance and efficiency. As the business environment continues to change rapidly and competition becomes more intense, small and mid-sized companies focus more on specializing on their core competencies and outsourcing their non-core activities to external service providers to stay competitive. In other words, Outsourcing has enabled small and mid-sized companies to stay competitive by outsourcing their non-core activities and providing flexibility to concentrate more on their core values.</p> <p>The main purpose of this Bachelor Thesis is to categorize the possible motivating factors that have driven small and mid-sized companies to subcontract their financial services and also to discover the benefits and impacts of outsourcing from the company's perspective. In the theoretical part, the concepts of outsourcing, the objectives, benefits, risks and impacts of outsourcing are reviewed. In addition, this research work has also discussed about the various types of outsourcing (mainly focused on financial service outsourcing), outsourcing process, necessary precautions during each stages of outsourcing has also been explained. Moreover, it has also covered areas like accounting requirements in Finland, different forms of business in Finland and their features and legal requirements.</p> <p>This thesis employs quantitative research methodology and data are obtained by using survey which then is analyzed with the help of statistical tools and charts. The empirical part of the study describes the questionnaire which was designed on the basis of research objectives. In the end, based on the gathered information, the objectives of outsourcing, the benefits of outsourcing, impacts of outsourcing on the company and the situation of financial services outsourcing in Finland has been deliberated and conclusion is made.</p>	
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List of Abberviations

3PL	Third Party Logistics
AFAF	Association of Finnish Accountancy Firm
BPO	Business Process Outsourcing
DC	Delivery Counter
EC	European Commission
EU	European Union
GA	General Accountings
HR	Human Resources
HRO	Human Resource Outsourcing
IAS	International Accounting Standard
KPO	Knowledge Process Outsourcing
OCIO	Outsourced Chief Investment Officer
PO	Procurement Outsourcing
IT	Information Technology

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1 INTRODUCTION

1.1 Motivation for the choice of research topic

In recent days, outsourcing has become a popular practice among small companies to get their work done by reliable service providers. Outsourcing is considered as best method to control cost, stay competitive and boost performance for small companies. Outsourcing has enabled small companies to focus on their core business and stay competitive in market by subletting their non-core business. Several popular sources suggest that major objectives of small companies to outsource their noncore processes are cost reduction, time saving, reduce burden, enhance efficiency, flexibility etc.

Small companies may not have budget to hire professional to perform some specific job, so they incline to outsource those jobs from outside services providers (vendors). In other cases, small companies or entrepreneurs are perceived as incompetent or lack flexibility to perform specific job and hence decide to sub-contract these services to specializing firms. In the end, they outsource noncore process that is not significant to their value chain and focus to their core activities. The most popular services that are outsourced by small companies are IT related work, payroll related work or general accounting or any other non-core value chain activities.

In recent years, Finland has witnessed large growth in the number of small and mid-sized companies. It has also seen proportional growth in companies that are specializing in outsourcing services or process. Recent data shows that large numbers of entrepreneurs and investors are attracted to establish businesses in Finland. The acknowledged motivation behind this trend could be due to large market opportunity and large numbers of potential customers in Finland. According to recent surveys and data, most of these new startups outsource their HR services, financial services, logistics services etc. from outside vendors. Most of the outsourcing companies are either small sized or medium sized. These outsourcing activities have motivated large numbers of professionals/companies to specialize on particular activities in order to meet the demand created

by the outsourcing trend. Large number of man power companies, accounting firms, logistic firms etc. has been established in recent years.

The popularity in practice of outsourcing services has attracted several experts and individuals led to several curiosity and questions raised among them. This consideration and eagerness among different individuals has attracted author's attention toward it. The authors have planned to get into depth and find out answers to certain questions raised by individuals and authors themselves.

1.2 Research questions

The main research questions that will frame the whole research work are:

- What are decision factors of outsourcing and benefits of outsourcing recognized by small and mid-sized companies and entrepreneurs?
- What is the current situation of outsourcing practice (main focus on financial service outsourcing) among small and mid-sized companies in Finland?

1.3 Research objectives

The goal of the research is to categorize the possible motivating factors that have encouraged small companies to subcontract their business processes. Moreover, authors will attempt to review the benefits of outsourcing that companies have realized from outsourcing activities. In addition, this research work will also try to figure out the impact of outsourcing on these companies overall performance. The state of outsourcing practice, mainly focused on financial service outsourcing, in Finland by small and mid-sized companies will be discussed. In addition, the level of satisfaction of companies will be noted and deliberated.

In the end, the data collected will be analyzed and discussed to provide solid basis in answering the research questions. Any possible variation will be noted and underlying factors behind the variation will be identified. This thesis will also provide solid infor-

mation on outsourcing to any entrepreneurs, small or mid-sized companies that are planning to outsource their business activities.

2 LITERATURE REVIEW

2.1 Outsourcing in General

“Outsourcing is a growing phenomenon, but it’s something that we should realize is a probably a plus for the economy in the long run. It’s just a new way of doing international trade.”- [Gregory Mankiw](#)

Outsourcing is made up of two words, ‘out’ and ‘sourcing’. Hence, to define outsourcing we must be clear on the term sourcing. Sourcing refers to the act of transferring work, responsibilities and decision rights to someone else (Desouza et al., 2006). It is therefore, the act of transferring the work to an external party is outsourcing. The term outsourcing is first used in the 1970s in manufacturing and since then it has been steadily adopted for other industries too.

Outsourcing can be taken as the decision whether to make or buy. Organizations continuously face different challenges in daily basis whether to expand the resources to create an asset, product or service internally or to buy externally. If they choose to buy, then they are engaged in outsourcing practice. Nowadays, it is difficult to locate any organization that has not outsourced any of its business activities.

Good outsourcing decisions can result in lowered costs and competitive advantage, whereas the poorly made outsourcing decisions can lead a company to a variety of problems and the business may lead to a failure. Moreover, the poorly made outsourcing decisions and practices can lead to an unintended loss of operational level knowledge too.

The main three components of outsourcing are client, vendor and project. The organization transferring the desirable activities of their company is referred as a client, the or-

ganization that conducts the work and makes decisions is the vendor and the scope of the work is captured in a project (Desouza et al., 2006, p.20).

These terms are shown in a figure below.

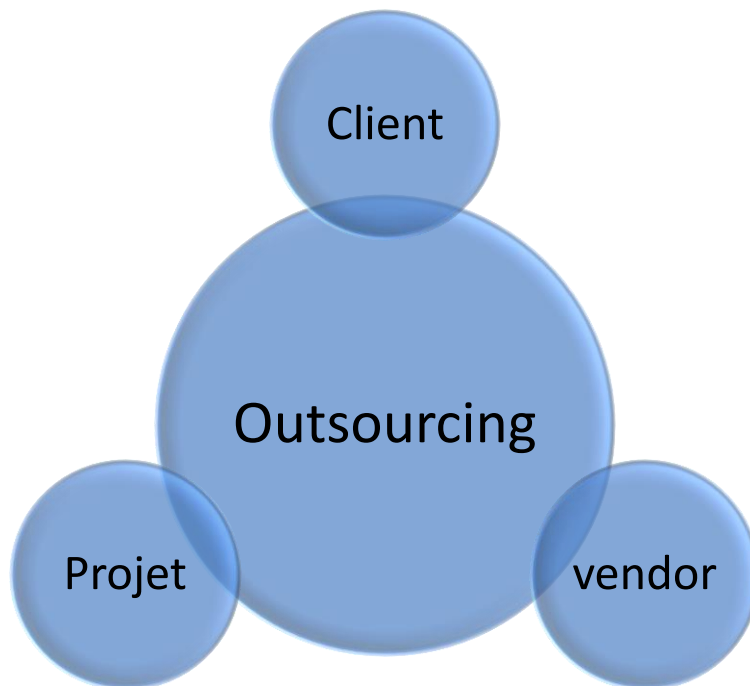


Figure 1 Outsourcing in General

“Outsourcing is the act of transferring some of a company’s recurring internal activities and decision rights to outside providers, as set forth in a contract”-, Maurice F. Greaver II (Greaver, 1999).

In outsourcing not only the activities are transferred but the factors of production with decision rights are often transferred. The resources, that support make the activities occur, include people, equipment, facilities, technology and other assets are termed as factors of production. The decision rights are the responsibilities which we have to make decisions over the elements of the activities transferred (Greaver, 1999).

But just as nothing turns lead into gold, outsourcing is not the magic shortcut that a company can take to achieve unlimited profits. The decision to outsource, like any other business decisions must be rational and calculated, based on the empirical evidence, not just as the latest fad. (Burkholder, Nicholas C., 2006, p.xii). In today's globalized economy, it is almost impossible for an organization to stay away from outsourcing activities. Each and every organization outsources; the only question is how effectively (Burkholder, Nicholas C., 2006).

The competitive advantage of any company lasts for a shorter period of time in today's competitive world. Companies do not have expertise in every field of its operation so they want to be focused and specialized on their core activities. Before you and your company decide to put yourself in the pool and start swimming with the outsourcing experts in other companies, you must be clear with the fact whether you are clear about what you are about to do (Burkholder, Nicholas C., 2006, p.41)).

The market for business process outsourcing is huge and it is expanding. The figure below explains more about the current worldwide business process outsourcing market size and the prediction in Future. The figure shows a radical increase in total outsourcing market and a growth up to US\$ 191 Billion in 2015.

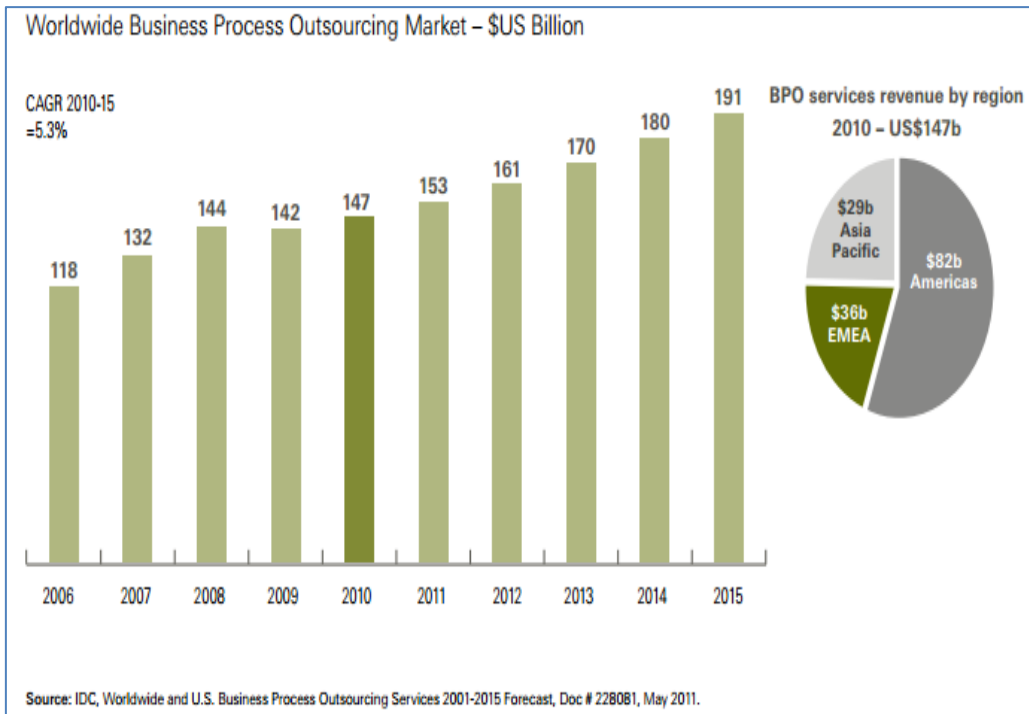


Figure 2 Worldwide Business Process Outsourcing Market(Young, 2011)

2.2 General Objectives of outsourcing

There are many reasons why companies may choose to outsource some or all of their activities. Managers in any organization when realize they need to eliminate inefficient internal service units, they choose to outsource those units for cost control and for better results. Here are some reasons why organizations outsource their activities.

- Improve quality of information systems services
- Obtain expertise, skills and technologies that would not otherwise be available
- Increase flexibility
- Enhance effectiveness by focusing on what you do best
- Gain market access and business opportunities through the provider's network
- Cost reduction through superior provider performance and the provider's lower cost structure
- Increase commitment and energy in noncore areas

- Improve management and control
 - Improve credibility and image by associating with superior providers
 - Commercially exploit existing skills
 - Acquire innovative ideas
 - Give employees a strong career path
 - Increase product and service value, customer satisfaction and shareholder value
- (Greaver, 1999) (Halvey & Melby, 2007)

2.3 Benefits of outsourcing

For a start-up business, outsourcing is a perfect way to reduce costs. It allows figuring exactly what each and every product will cost the company before they decide to obtain it. Along with this, they have to pay only for the results, components, the hours worked, the products sold and so on (Burkholder, Nicholas C., 2006).

Companies that do each and everything themselves must be engaged in higher research, development, marketing and distribution and spend a lot of money which obviously will transfer to the customers. If these roles are outsourced then the outside provider's cost structure and economy of scale can help increase efficiency of the company (AllBusiness.com, 2008).

Outsourcing helps get work done more effectively. In any organization there are managers and other financial positions that have superior knowledge about the working of markets and the issues of stock pricing and appreciation. But they still employ brokers and financial planners to manage their portfolios, as they may lack the required expertise and knowledge to make good decisions. It is therefore wise to outsource task to an expert that will provide access to expertise (Desouza et al., 2006).

Outsourcing the operational control of the company helps benefit that company. There can be many departments that may have evolved overtime into uncontrolled and poorly managed areas inside any organization which are prime motivators for outsourcing. Moreover, the outsourcing company can bring talented management skills in the organi-

zation. Outsourcing can provide an organization with greater flexibility. This is mainly reliable for the companies that are mainly dependent on the goods which are dependent on rapidly developing new technologies or fashion. Specialist suppliers can provide greater responsiveness through new technologies than large vertically integrated organizations which helps rapidly increase or reduce production in response to changing market conditions (McIvor, 2005).

Outsourcing helps access to innovation. Many organizations are unenthusiastic to outsource because they fear that they may lose the capability for innovation in the future. However, in many supply markets there is a great chance to input many new inventions and leverage the capabilities of suppliers inside the company. More than this, the company will highly benefit from the suppliers investments, innovations and specialist capabilities.

2.4 Risks and Impacts of Outsourcing

Outsourcing a service or a process from specializing vendors is considered as a project from the perspective of outsourcing company. Business decision makers have many fears concerning outsourcing. It is because every outsourcing project carries some kinds of risks associated that fear managers about getting locked into long term contract and hence lose flexibility about the process. Similarly, they are concerned about the customers and employees perception towards outsourcing activities. Will the outsourcing action create a positive or negative image in the employee's mind or will it change customer's perceptions towards company's products and services? If it fears the employees to lose their job, ultimately it will have impact on the overall productivity and also result in key employee's turnover. Hence, change in customer's attitude towards company's outsourcing activities will affect company's overall operation (Greaver, 1999).

The biggest risks known so far about the outsourcing activities are hidden cost of outsourcing, loss of visibility and control of process, and the potential impact to the customer satisfaction and push-back from customers. These risks have significant effect on company's overall outsourcing project. For instance, loss of visibility to the process is a

risk that is too difficult to avoid but few of the companies had formal plans in hand to address it. Similarly, hidden costs are another big risk and often get neglected in the beginning of the project. But later this negligence turns into a large risk (increase in cost) for the company and affects company's overall operation. In the end, due to lack of formal plan to address this risk, company has to suffer with large losses. Other risks mentioned above have somehow higher level of consequences on company's performance. For instance, lack of customer satisfaction caused by the services outsourced also affects company's own products and services, total revenue and customer's loyalty towards the products (Handfield, 2010).

Different books and articles have mentioned several other kinds of risks associated to outsourcing activities. For example, some IT companies outsourcing their service may treat risk related to data protection, process discipline, loss of business knowledge, vendor failure to deliver, compliance with regulation, culture, turnover of key personnel and productivity fluctuations as their biggest risks. If these risks are not checked in the beginning, they can bring large consequences (mostly high costs) that overall outsourcing project will be senseless. For example, if a vendor fails to deliver its services by the deadline, it is the buyer who is accountable for the services that are outsourced. This kind of failure may lead to a big loss for the outsourcing companies and may result in overall BPO failure. It is important to address these risks in time or BPO will turn into bad business strategy (Shukla, 2010).

Outsourcing is not always productive for the company. There have been numerous cases where companies have experienced failure either due to ignorance or some serious issues in outsourcing process. There are 10 common traps of outsourcing that are listed below.

- Lack of Management commitment
- Minimal Knowledge of outsourcing methodologies
- Lack of an outsourcing communication plan
- Failure to recognize outsourcing business risks
- Failure to tap into external sources of knowledge
- Not dedicating the best and brightest internal resources
- Rushing through the initiative

- Not appreciating cultural differences
- Minimizing what it will take to make the vendor productive
- Poor relationship management programs (Desouza et al., 2006, p.20)

2.5 Different forms of Outsourcing

There are different types of outsourcing. But in general, there are 3 primary types of outsourcing that are most popular on the recent period. They are:

- Business Process outsourcing
- Information Technology Outsourcing
- Knowledge process Outsourcing

2.5.1 Business Process Outsourcing (BPO)

Business process Outsourcing (BPO) is emerging as one of the leading economic and business issues in the recent days. It is clearly the hot topic in the outsourcing industry, receiving a good attention in almost all the outsourcing and industry-specific seminars. BPO is defined simply as the movement of business processes from inside the organization to an external service provider.

According to (Halvey & Melby, 2007), BPO refers to the outsourcing of one or more specific business processes, methodologies or functions to a third party vendor. BPO focuses on how an overall process methodology is effective from manager to the end user. BPO is one of the interdisciplinary workplace innovations which require a diverse set of skills in order to be successful.

It is generally discussed in terms of the international relocation of jobs and workplace functions. In real practice, there are 3 types of BPO, namely offshore, onshore and near-shore. (Duening & Click, 2005) Organizations use any of these types depending upon their needs. To achieve their objectives, some firms use a combination of these types.

Offshore BPO is the most challenging and potentially rewarding as it mainly deals with the relocation of business processes by a company from one country to another. Onshore BPO is just the opposite of Offshore BPO where the business processes or operations are moved from overseas to the local country. Nearshore BPO is the new outsourcing term that refers to transferring of business processes in nearby country, often sharing a border with the country (Duening & Click, 2005).

BPO is one of the interdisciplinary workplace innovations that require a diverse set of skills in order to be successful. In order to successfully initiate and implement the BPO project in an organization, focused attention on several human factors, both within the organization initiating the project and within the outsourcing vendor is required (Halvey & Melby, 2007).

2.5.2 Information Technology Outsourcing (ITO)

Information Technology outsourcing (ITO) is becoming very essential today. Technological innovations are quickly enticing businesses and economic models to evolve. Companies have to adapt to those changes in order to thrive in a competitive market. Some of the technologies that are included in this are electronic commerce, network infrastructures, applications, telecommunications and website development. These functions can be performed by in-house employees but in this competitive market, a third party firm that specializes on this field can do it good and quickly and is more cost-effective (Outsourcing Tips., 2011).

2.5.3 Knowledge Process Outsourcing

Knowledge process outsourcing (KPO) typically initiates the work that needs higher levels of involvement from the worker. The worker has to employ advanced levels of research, analytical and technical skills, which mean the providers, are expected to work independently. In this type of outsourcing, the specialists are given managerial control. Examples of KPO include pharmaceutical research and development, intellectual prop-

erty research, content writing and database development services, legal services, anima-
 tion and simulation (Outsourcing Tips., 2011).

The chart below provides clear picture of services that are being outsourced by
 companies all over the world. This figure tries to illustrate the outsourcing activites with
 respect to the sub-fuction of the companies.

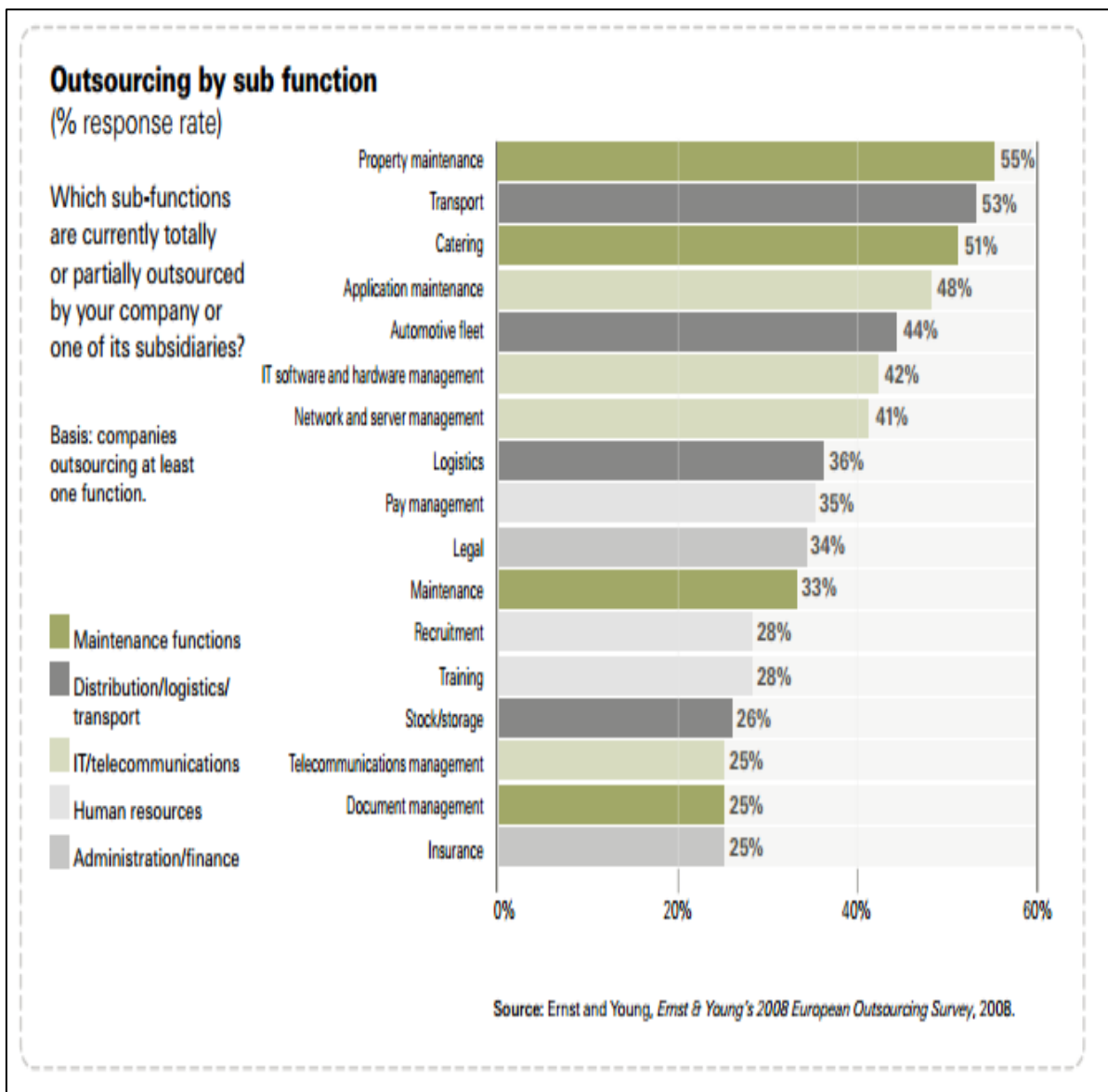


Figure 3 Outsourcing by sub-functions (Young, 2011)

2.6 Types of Business Process Outsourcing

2.6.1 Financial Services

Outsourcing finance and accounting is the most common in recent years. It is one of first activities that most of the companies have outsourced. As the market matures, companies are expanding outsourcing to new areas and functions of finance and accounting. New industries and new sizes of companies are established than in the past for better outcome. Companies want to outsource different functions associated with this. The main components or functions of finance and accounting include:

- General accounting
- Payroll
- Treasury/cash management
- Accounts payable
- Accounts receivable
- Credit
- Fixed assets
- Contract maintenance
- Collections
- Financial systems
- Tax and regulatory compliance
- Budgeting
- Securities and Exchange Commission and regulatory operating. (Halvey & Melby, 2007)

Companies outsource one or more finance and accounting functions in order to make their company run better and want to turn over managerial and operational responsibility of a finance function in conjunction with the reengineering of their financial methodologies and systems. Reengineering helps company to involve in the development and implementation of new methodologies.

Outsourcing tax and regulatory compliance and payroll are becoming very common. Companies are looking to move from relatively basic transactional processes, such as

accounts payable to more strategic functions, like budgets, forecasts and internal audits. As companies are looking to leverage the power of their data, they are turning to outsource their functions with greater expertise than they have in their own company (Mullich, 2013).

2.6.2 Investment and Asset management

Outsourcing investment and asset management is one of the areas that financial services organizations are considering. Among the institutional investors with long term portfolios, the practice of delegating a significant portion of the investment office functions to a third party provider, especially the investment management has increased over the past decade.

There are different forms of Investment Company, some big and other small. If an investment company manages a small amount of certain assets as part of a large service offering, it may consider outsourcing the business process of their company to a more experienced company with large portfolios of similar asset and greater infrastructure and resources to manage them. (Halvey & Melby, 2007).

Outsourcing, which is broadly known by the term “outsourced chief investment officer” or OCIO encompasses a wide range of models which depends upon the commitment of the institution itself who are employed in carrying out its decision. In a typical form of OCID model, the outsourcing provider designs a customized solution for the institution based on the risk tolerance, return targets and other requirements (Griswold & Javis, 2013).

As companies are using alternative investment in different fields, much closer analysis and monitoring is being delay. The volunteer boards and investment committees are unable to have meeting frequently which have challenged to monitor the complex portfolios. This consequently is leading for the companies to outsource the management functions to a third party which handles it properly.

2.6.3 Real estate management

Real estate management outsourcing typically involves responsibility for noncore functions as physical security, maintenance, customer service, cafeteria, parking, leasing, rent collection and disaster recovery (Halvey & Melby, 2007). Many real estate owners purchase property for the investment purposes. But due to the competitive market and uncertainty, they want to outsource the responsibility of such services to a third party, who are specialized in such things rather than taking risk by themselves.

In the last five years, the outsourcing of real estate services has gained a momentum as the company wants to be more prominent than other from each and every perspective of business activities. Today, many corporations have fully developed outsource models that cover a lot of real estate services (Wakefield, 2013). The main factors which have influenced the managers to outsource real estate services are:

- ✓ It helps lower costs and increase efficiency within the organization
- ✓ Allows companies to focus on their core business
- ✓ Provides exposure to best practices, including technology
- ✓ Improves process performance
- ✓ Reduce future investment costs (KPMG, 2012) (Wakefield, 2013)

Although, man companies want to outsource real estate services to a third party, there are also organizations which do not want to be involved in such outsourcing. The size of the company and its area covered may also be a reliable reason but following are some more factors listed.

- ✓ Activities are too strategic in nature
- ✓ Risks are too high
- ✓ Costs would be higher
- ✓ Providers capabilities not mature enough
- ✓ May had bad previous outsourcing experience (KPMG, 2012)

2.6.4 Human Resources (HR)

Human resources are one of the aspects of BPO that has gotten a lot of attention in the past few years. The contents inside HR vary from company to company. Some companies consider payroll as HR function while others consider it as a finance function. But in general aspect, HR covers all the employee-related functions, from recruitment to benefits management, claims administration and payroll (Halvey & Melby, 2007).

Today outsourcing the entire HR process is increasingly common for companies. Some outsource entire HR processes to one vendor whereas some outsource particular functions to different vendors, largely because different vendors have different areas of expertise (Halvey & Melby, 2007). For example, if a company wants to outsource payroll then it might contact a vendor which is particularly expertise in that area and the same process can be taken for other functions of HR.

Mainly, today small and medium sized companies are in a tough competition which leads them to follow the core business only. Due to the lack of in-house expertise, complex employment regulations, limited time for core activities and rising costs they want to do HR outsourcing (ADP, 2008). Because of these factors in this modern business world, HR outsourcing has become one of the leading outsourcing functions. Some of the advantages are:

- ✓ Enables the small businesses to minimize the risk involved in handling business processes in-house.
- ✓ Helps improve efficiency because outsourcing provides a broader network of capabilities and information to the person who works onsite in the company's HR department.
- ✓ Enables businesses to save time and resources.
- ✓ Reduces the significant amount of expenditures in the early stages of operating businesses.
- ✓ Enables small companies to minimize frustrations dealing with complex employment regulation. (ADP, 2008)

Although, HR outsourcing leads a company to perform their core business and gain a lot of advantages mentioned above, there are also organizations which does not want to engage in HR outsourcing. The main reasons for non-engagement in HR outsourcing are:

- ✓ Already using the effective shared service model
- ✓ Perception that HRO presents too much risk for their organization
- ✓ Poor experience of outsourcing elsewhere
- ✓ Having effective, well-resourced HR team within the organization
- ✓ Unknown and unconvinced about the benefits of HRO ((CIPD), 2009)

2.6.5 Procurement

Procurement is obtaining or buying goods and services. The types of goods and services that may include in procurement outsourcing arrangement depend largely on which goods and services customer considers nonproduction goods and services. In this outsourcing, the customers typically want the vendor to standardize supply options and helps on cost management and efficiency (Halvey & Melby, 2007).

Some of the companies view the services outsourced as a procurement outsourcing whereas some may view as consulting or technology service which makes confusion what actually it is. Procurement outsourcing typically involves the long-term (36-60 months) day-to-day management of a group of procurement sub-processes (e.g., requisitioning, supplier management) for multiple category groups (e.g., Administrative Suppliers and equipment, Telecom, IT, Travel, etc.) (Gilroy, n.d.).

Procurement is not as easily outsourced as other functions as it directly ties into the company's profit and loss statement. Companies are careful about not losing their important function which makes procurement functions less outsourced (Slelatt, 2011). But in the recent days, PO market has quickly taken its pace and is one of the fastest growing BPO segments at an annual rate of 12% over the next 5 years and expected to reach \$3.4 billion in expenditure this year (Dubiel, 2013).

Among many procurement processes that have been outsourced some of them are listed below.

- Strategic sourcing
- Requisition and approval
- Order management
- Receiving, inventory and invoicing
- Fixed asset management
- Accounts payable
- Financial reporting and analysis (Halvey & Melby, 2007)

2.6.6 Logistics

Logistics outsourcing is also one of the common words among BPO. Logistics outsourcing typically involves in acquisition, handling and transportation of goods. A number of legal and regulatory issues specific to such services such as warehouse liens, security interests, insurance and allocation of risk occur during transportation (Halvey & Melby, 2007). Companies doing a lot of transactions daily cannot handle all the logistics by themselves which results in outsourcing.

In this business world, logistics has been an important part of each and every economy and business entity. The company are going worldwide and this has led to many companies outsource their logistics function to Third Party Logistics (3PL) companies so that they can mainly focus on their core business activities (Cheong, 2003). It is therefore increasing day by day as many companies are being established throughout the world and each of them wants to go global.

In a typical 3PL arrangement, the 3 PL remains in the middle between the manufactures or suppliers and the end customers. The documents are picked up from the manufactures to the hub and from delivery centre (DC)it is delivered to the customers. The typical 3PL arrangement is shown in figure below.

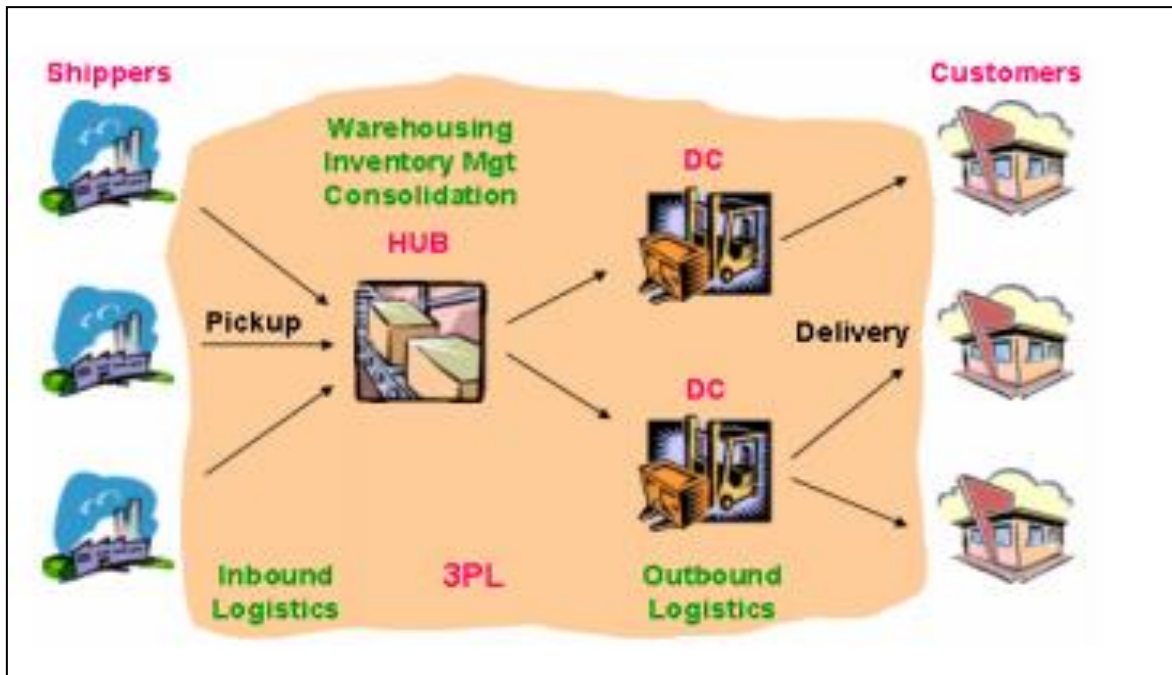


Figure 4 Typical 3PL Arrangement (Cheong, 2003)

2.6.7 Miscellaneous services

Outsourcing in recent days has become so famous that companies outsource every business process categories to a third party. Other than the core business processes, companies categorize small things and want to give responsibility to different vendors who are specialized in that field in order to manage effectively by third party or to lead a reduction in costs. The business processes like energy service, customer service, mail and copying services, food services are all categorized and are outsourced (Halvey & Melby, 2007). The outsourcing services that any business forms perform which are apart from abovementioned services falls under miscellaneous services.

2.7 Outsourcing Process

Outsourcing activities in an organization should be treated as a process with various steps. Different authors have presented several outsourcing phases in their books and research articles. Most of them are overlapping and have mentioned somewhat similar

steps of outsourcing process. The most common steps of outsourcing process as mentioned in popular books are: planning initiatives, exploring strategic implications, analyzing costs and performance, selecting vendors, negotiating terms and managing relationships. However, it is advised to modify these steps and fit as per company's needs. It is not compulsory to follow these steps simultaneously; rather it can be performed randomly since these steps are interrelated. It is important to mention that the outsourcing process takes a lot of time to complete. In order to have a successful outsourcing process it may also be valuable to consider having a team leader to each phase (Greaver, 1999, pp.17,24).

The above mentioned process is more clearly illustrated by a figure below.

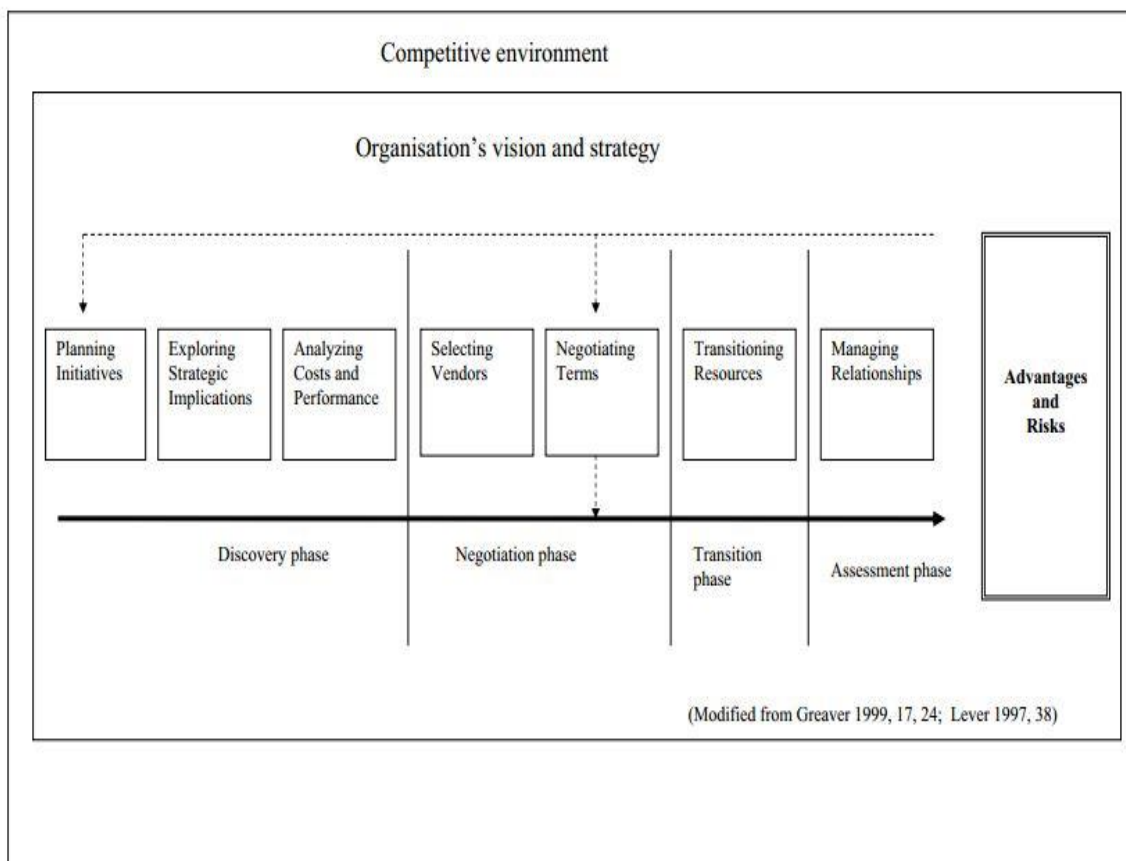


Figure 5 Greaver's model of outsourcing process (Greaver, 1999)

Some other sources have mentioned outsourcing process differently. They state that the outsourcing life cycle is made up of the following stages: strategic assessments, needs analysis, vendor assessment, negotiation and contract management, project initiation

and transition, relationship management and continuance, modification or exit strategies. These stages can be further illustrated by a figure below.

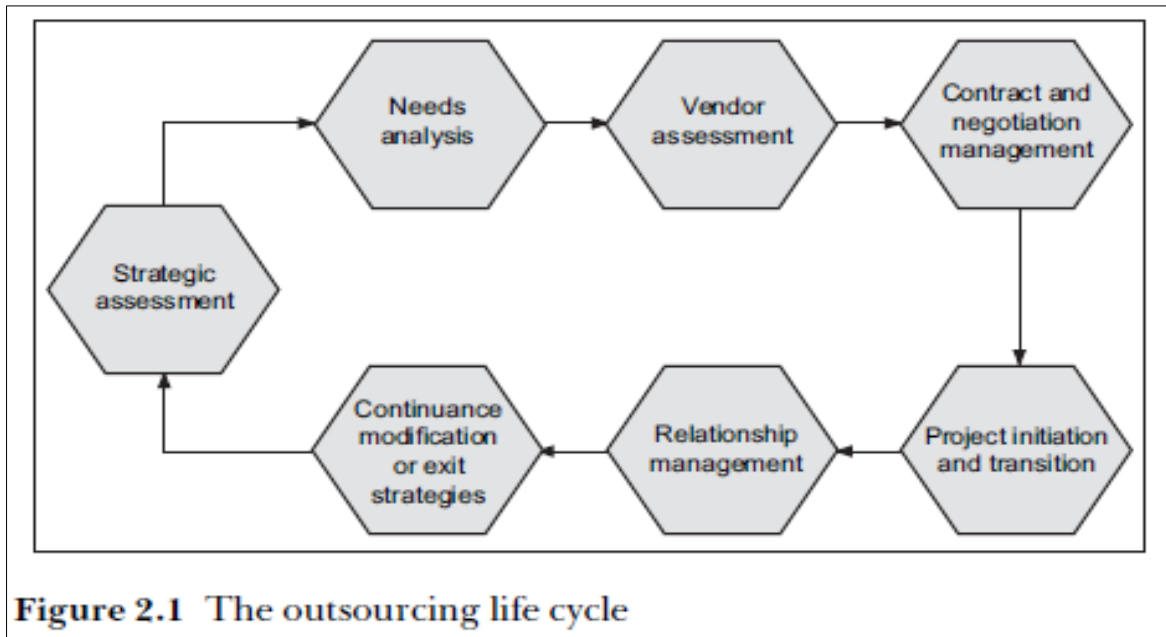


Figure 6 The outsourcing life cycle (Mark J power, 2006)

Although the approach of the authors in the above mentioned paragraph are different but their steps are interrelated to some extents. Most of the popular books on outsourcing have also discussed about outsourcing process in their own terms and steps. For instance, the most popular book “The black book of outsourcing” has mentioned various other steps of outsourcings including necessary works to be done in each phase. The steps are shown in a figure below.

Black Book Model of Successful Outsourcing

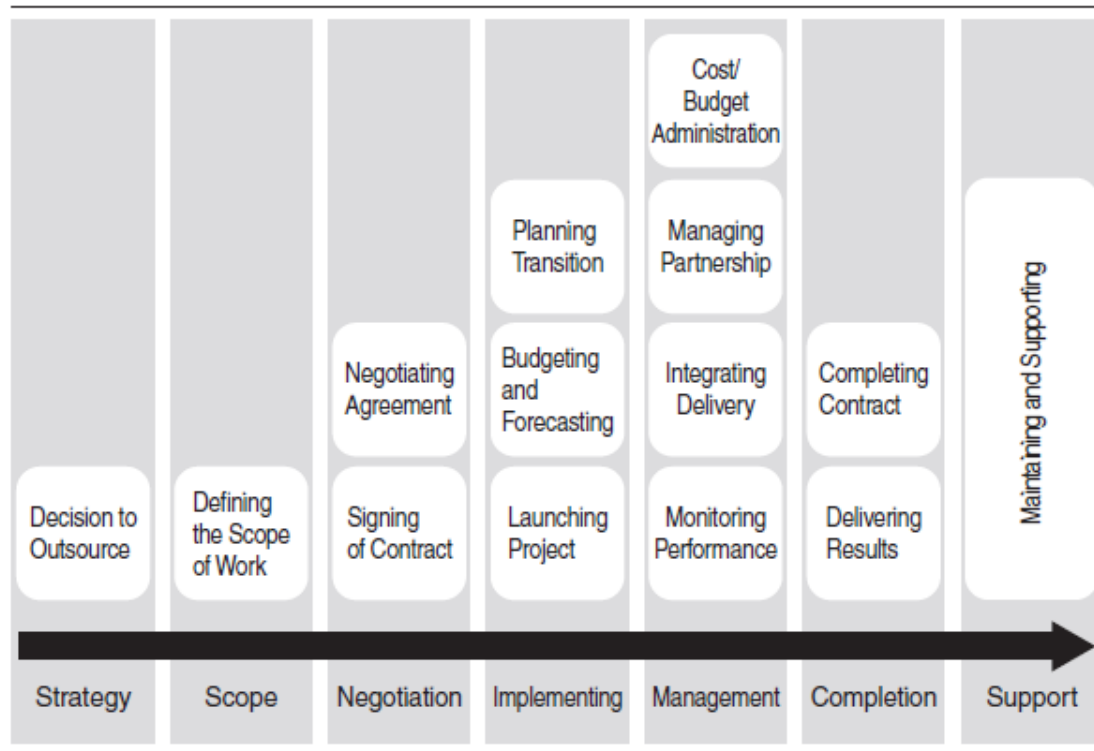


Figure 7 The black book model of outsourcing process (Douglas Brown, 2005)

The above figure shows that the outsourcing process starts from strategy phase where decision to outsource is discussed, followed by scope stages and so on to the final stages indicated as support. Each stage has its own specialty and importance. All the mentioned tasks should be completed to get realize a successful outsourcing.

All of the above mentioned theories have tried to explain similar things with different terms and a bit modified process; however the figure from the black book of outsourcing is more concise and clear to the understanding. The rest of the research work covers information from the above mentioned books and other articles from different sources.

2.7.1 Planning Initiatives

During this step company should:

- Assess risk

- Announce initiative
- Form project team
- Engage advisers
- Train the team
- Acquire other resources
- Set objectives (Greaver, 1999, p.18)

The outsourcing process begins and required initiatives are performed at this stage. In the beginning, cross-functional team are formed to study and implement outsourcing initiatives that requires selection of team members and leaders. This team consists of executives from different department of organizations; for instance IT, finance, Human resources, strategy etc. and other members of the organizations. These teams calculate the risks and the resources requirement, information, and management skills that will be needed to minimize those risks. Later a team leader is selected and assigned with certain responsibility (Greaver, 1999, pp.24-25).

The outsourcing team will be responsible for the following areas:

- Defining and documenting key business objectives and outcomes.
- Identifying the products and services that are candidates for outsourcing
- Developing an understanding of the external marketplace, including the vendor's capabilities and how that can be used to help meet the organization's business objectives.
- Clarifying roles and responsibilities
- Leading and managing change
- Defining the organizational design and culture that will be required to achieve its outsourcing objectives successfully (Desouza et al., 2006, p.47).

The team then set objectives that should be concise, clear and well understood among the concerned parties, because they affect the direction and result of the outsourcing process. They influence the outsourcing contract and control the assessment of process preceding and possible options. Proper objectives should be created and in future it can

be treated as base for overall outsourcing project assessment. These objectives should not contradict with overall company's objective. If these objectives have to be changed in future, this may have impact on overall costs. An organization may have for example the following generic objectives: gain and maintain skills, tools and new technologies, cost effectiveness etc (White, 1996, pp.4-10).

Criteria for evaluating the outsourcing success should be created beforehand. Some possible criteria are finishing on time, finishing within the budget, fulfilling objectives, meeting team member's commitment, performance improvement and cost reduction. Each criterion should be evaluated on periodic basis and results should be submitted to the senior management. Any part of the value chain when outsourced could create mistrust among the employee and organization. Individuals may oppose the move, show negative emotions, and become resistant to the change. The reason behind employee's reaction is due to fear of losing job or fear of change in duties. Therefore, employees should be announced about the situation and outsourcing process in order to avoid mistrust, mess up and doubts (Greaver, 1999, pp.40-42).

Resource information should be checked in the beginning by the management group before getting ready for the outsourcing project. Every new project carries new risk with them and identifying these risks won't be affective. In fact, these risks should be reduced and managed properly. A certain kind of risk register could be created to identify, classify and manage risks. The content of the risk registers contains detailed risk description, classification and final summary of risks. Outsourcing process could become too complex and difficult to manage and result in difficulties to reach the planned aim. It is important to update risk register frequently and reviewed as well as the risk reduction plans are monitored (White, 1996, pp.28-30, 38).

It is wiser to consult outside adviser, consultant, lawyer and other specialist to prevent from being cheated by the vendors. It is because vendors are professional in negotiating contracts and may leave space in the contract that might harm company in near future. These specialists assist to manage risks, provide expertise in various issues and help project manager. These advisors have experience of what issues to take in consideration or what not during BPO. The role of advisor could be limited to a certain phase or they

can be used in entire outsourcing process. It is very important to assess the required skills and qualification of advisors. A wrong choice may cost large to the company (Greaver, 1999, pp.48-55).

2.7.2 Exploring Strategic Implications

In this step, company should do the following:

- Understand company's
 - Vision
 - Core competencies
 - Structure
 - Transformation tools
 - Value chain
 - strategies
- Determine:
 - Decision rights
 - Termination date
 - Contract length (Greaver, 1999, p.18)

It is very much important to relate outsourcing objective to company's overall objective and make sure they do not conflict with each other. The main company's visions that should be taken into consideration are current and future structures, core competencies, costs, future performance, competitive advantages etc. (Greaver, 1999, pp.25-26).

It is crucial to share organization's vision to the employees and other interest groups. Doing so will help employee learn about the organization's long term goal and the strategies followed by organization to achieve it. It will make management work easy to convince employee about outsourcing as a part of business strategy and explain them about why resources are used only to its core competences and rest are outsourced. In the end employees and other interest group will understand that organization size has nothing to do with organization success, instead it is market power, integration, big

network of outsiders and insiders, which counts. The organization should focus on core competencies and get rid of the rest and stay in competition (Greaver, 1999, pp.75,79).

Before outsourcing any of company's activities, company should first differentiate its core competencies to noncore competencies. In this way it will be easier for company to decide which activities to be outsourced and which should not be outsourced. Usually, customers help companies to identify their core competencies when company looks their value through customer's perception. In this way company can outsource its noncore business and enable the organization to focus on, invest more resources and improve, core competencies (Greaver, 1999, pp.87-92).

It is very important to understand that outsourcing activities affect over all company's decision making process. When an activity is outsourced from the provider, some of the decision making will be transferred to the provider. So it is vital to define some of the decision making concerning factors of production, operating processes and other management decision and strategic issues. The company and provider should agree on following things like who manages the resources, who decides of the equipment, who evaluates performance and so on (Greaver, 1999, pp.117-18).

2.7.3 Analyzing Costs and Performance

During this step company should:

- Measure activity costs
- Benchmark cost/performance
- Project future costs
- Measure performance
 - Existing and future
 - Cost of poor performance
- Determine:
 - Specific risks
 - Asset values
 - Make total costs

- Pricing models
- Final targets (Greaver, 1999, p.18)

It is assumed that outsourcing reduce the cost and enhance the efficiency and productivity of an organization. Sometime it may bring additional costs to the organization. It is essential to compare the existing costs and future costs of services that are planned to outsource and hence should be compared to the proposal made by the provider. Some of the costs may disappear but there is space for new and hidden costs. Beside cost review, performance should also be evaluated and it will help to set standard to monitor the occurring cost and performance in the future (Greaver, 1999, p.26).

Trying to access cost of outsourcing through financial statements could be a difficult job. It is advised to apply activity based cost method to identify the costs of each process and then evaluate the final cost of activities that are outsourced. The costs should be separated and expressed in different scenarios to estimate the future operating costs and investment. These estimated costs should be compared to company's desired cost and investment and also to those of provider's proposal (Greaver, 1999, pp.130,132,135,136,139).

The company should analyze its existing and projected performance in order to be aware of the difference between the current and desired performance, other organization's performance and performance of provider. The result should show necessity to outsource. Company should develop standards like productivity, quality, time, utilization, outputs and financial issues to evaluate the cost of poor performance and project the future performance (Greaver, 1999, pp.146-150, 154).

If there were no risk, there would be no need of managers. Risk and uncertainty is what management is all about. A risk assessment takes an aggregate view of the organization and the proposed outsourcing initiative and identifies risk and associated risk mitigation strategies (Desouza et al., 2006).

Usually there are several forms of risk associated to outsourcing process. There are generally four elements of risks assessments strategy. It is illustrated by a figure below.

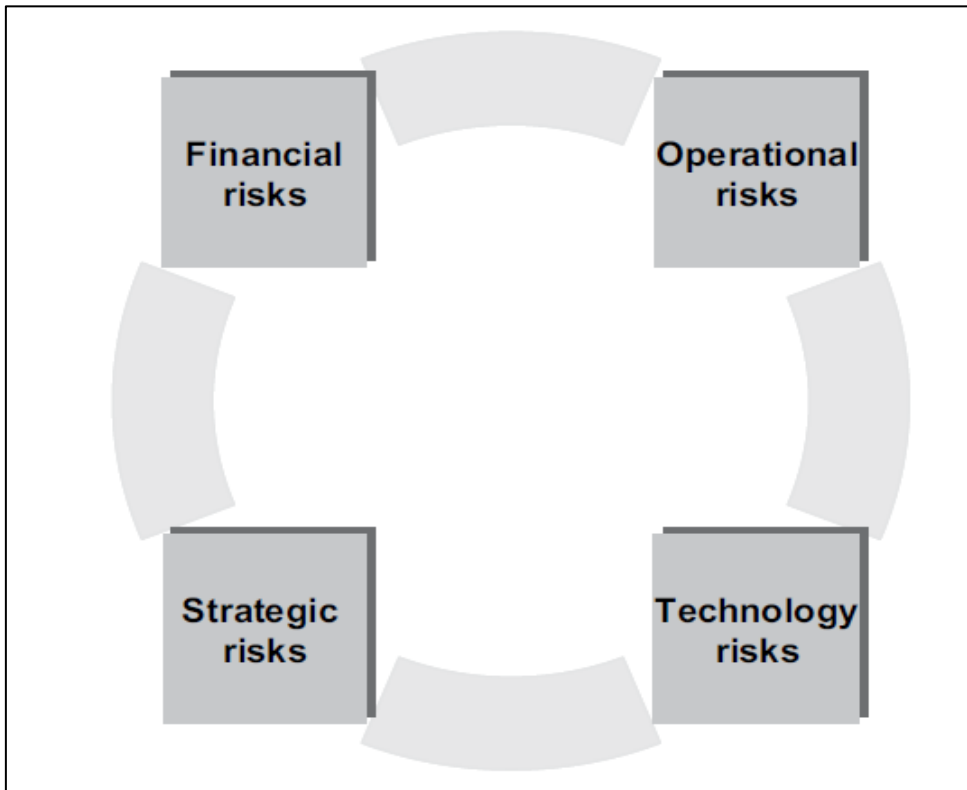


Figure 8 Elements of Risk Assessment (Desouza et al., 2006, p.62)

Strategic risks deal with issues of interaction between the organization and the proposed vendor. Operational risks address the risk of managing the internal and external operational elements of the proposed outsourcing initiatives. These risks also address an array of elements such as defining the roles and responsibilities of the management and staff, and determining process, procedure, methodology and mismatch between the buyer and service providers. The technology risk assessment identifies the organization's technology support attributes. This assessment also exposes potential risks associated with the proposed outsourcing project technology and impact on both the client and vendor organizations. The financial risk assessment defines and baselines all internal costs and financial system maturity levels. It also identifies all financial risks associated with moving forward with the proposed outsourcing initiative (Desouza et al., 2006, pp.62-65).

2.7.4 Selecting Providers

During this step company should:

- Set qualifications
- Set evaluation criteria
- Identify providers
- Screen providers
- Draft request proposals
- Evaluate proposals
- Determine short-list providers
- Determine finalist provider
- Review with senior management (Greaver, 1999, p.18)

The chart below represents different types of vendors in markets

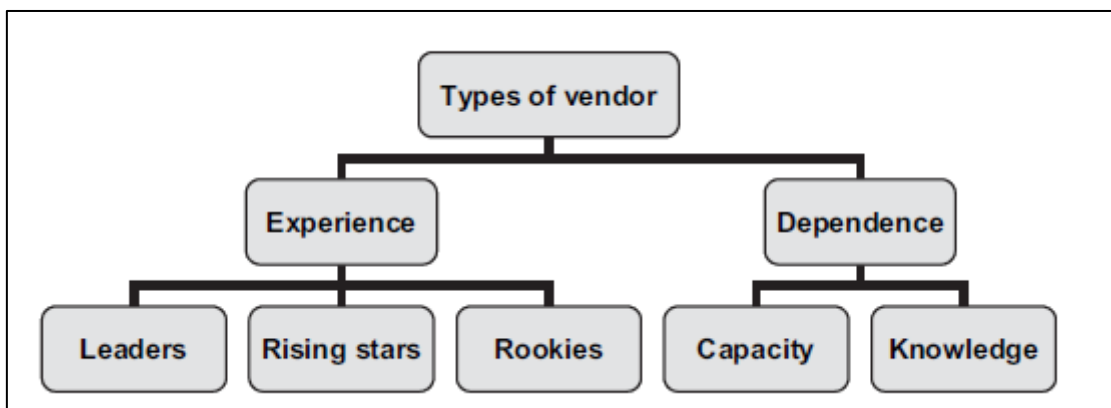


Figure 9 Types of Vendor (Desouza et al., 2006, p.95)

The above chart has categorized vendors into two forms; Experience and Dependence. It has further sub-categorized experience into leaders, rising stars, rookies and dependence into capacity and knowledge.

It is also important to consider the objective of outsourcing when setting the qualification for vendors. In case, if it is neglected, the selection of vendor may end up with incompetent candidates. Some of the qualifications that can be desired from the vendors are mentioned below:

- Ability to deliver today, experience to deliver

- Provider strengths
- Superior performance
- Deserved good reputation
- Proven customer satisfaction
- Financial stability
- Management capabilities
- Shared approach to problem solving
- Commitment to continuous improvement
- Transition experience
- Trust, security, confidentiality, flexibility
- Positive attitude
- Cost-consciousness
- Willing to share knowledge
- Clear vision of their market (Greaver, 1999, p.173)

These sets of qualifications can help in identifying potential provider and hence less effort is required by the organization. Each of the criteria mentioned may not have equal importance but some of them could be treated as a must for the provider's qualification. Company should decide whether the provider should be invited to propose or not. A clear request should be formulated and sufficient information should be provided. Beside this, responder should be given enough time to respond and access to organization's decision makers. Once proposals are received, they must be evaluated and compared to the standard set or to the qualification set and cost. Doing so will decrease the amount of potential providers and it will be easier to evaluate the best potential provides and investigate about them in detail. It is good to maintain a kind of competition in among these vendors (Greaver, 1999, pp.27,184).

After going through each proposal, back ground of each vendor should be checked. It is advised to check provider's references, output should be tested. A small presentation can be arranged and it could be followed by small arrangement for possible questions and answers between vendor and company. A confirmation should be made by each vendor by now. In the end, the best vendor should be chosen after team has met, possibly voted and conducted a final debate. After choosing vendor, questions regarding the

contract and list of possible issues can be documented and prepare for negotiation (Greaver, 1999, pp.194,195,215-219).

The black book of outsourcing has summarized overall vendor selection within the following steps which is mentioned below.

- Convene the selection team.
- Gather vendor information, issue request for information-
- Set realistic schedule
- Develop a term sheet.
- Define and evaluate current objectives and operations.
- Define and evaluate criteria and weights before issuing bid requests.
- Prepare requests for proposal.
- Evaluate the bids.
- Select a vendor (Douglas Brown, 2005, p.111).

Vendor selection is the most crucial part of the overall outsourcing process. A wrong choice will have huge impact on the company's overall performance. To avoid this blunder, it is good to know the most common error made during vendor selection and then taking precaution based on them. There are six common errors that companies are likely to make. They are:

- Sacrificing needs analysis for a glamorous vendor
- Evaluating a vendor with cost savings as the decisive factor
- Poor risk assessment of the vendor
- Rushing through the process of vendor selection
- Lack of care in managing interactions between vendors
- Failing to maintain a balance between using current and new vendors (Desouza et al., 2006) .

2.7.5 Negotiating Terms

During this step company should:

- Plan negotiations

- Prepare terms sheets
- Negotiate contract
- Announce relationship (Greaver, 1999, p.19)

As mentioned above, companies prepare plan for negotiation, prepare terms sheets, negotiate contract and in the end announce relationship. This process is carried out by converting request of proposal and actual proposal into term sheet and this term sheet is later used as basis for negotiations. The main objective of the negotiation is to reach an agreement that will satisfy both parties. The main content of term sheet as mentioned in the reference book are scope of services, factors of production, performance standards, transition provisions, management and control, pricing and termination provisions. Each of the term mentioned in the term sheet should define some responsibility to the provider. After the agreement is made, the employee and other interest group should be informed about the new relationship (Greaver, 1999, p.28).

Any person has had an entire lifetime of negotiating experience, some of which have had a positives ending, others less favorable. Most often negotiators overlook some key aspects and end up with poor contract that cost the company in long run and ultimately lead to outsourcing failure. The key aspects of negotiating an outsourcing contract that are often overlooked and underestimated by companies are mentioned below.

- Know yourself
- Know your vendor
- Know your market
- Prioritize your requirements
- Know your time frame
- Start from your position then move towards the vendor's
- Have the right negotiation team
- Appreciate cultural difference – organizational and national
- Document, document, document
- Negotiate towards a relationship not a contract (Desouza et al., 2006, p.115).

Once the company has negotiated the contract and reached the decision to outsource and enter into a relationship with the vendor, they should define the points of agreement on the contract of outsourcing. Doing so will help the company and vendor to maintain their relationship in long run and understand their roles and responsibility. The company and the vendor should mention following things on the contract.

Structure of the agreement

The outsourcing agreement may be structured as a ‘master’ allowing for most outsourcing relationships, the outsourcing agreements should include procedures by which the parties can address expected and unexpected changes and disputes with minimal disruption to the relationship.

Scope of services

The outsourcing agreement should identify not only the functions included in the scope of services, but also what functions are excluded from the scope of services and what functions are the responsibility of the customer.

Quality of services

Measurements by which the service provider’s performance may be monitored can be subjective (e.g. reasonable efforts in providing services) and objective.

Fees and Payments

The outsourcing agreement should specify the pricing mechanism (e.g. fixed price, time and materials), any price controls (e.g. price ceilings or floors), required regarding records retention, audit rights and responsibility for taxes.

Human resources

The outsourcing agreement should include the parties’ understanding regarding the retention, transfer of the customer’s employee, as applicable.

Intellectual property

The outsourcing agreement should state the parties' intentions with respect to ownership of, and responsibility for, intellectual property developed in the course of the outsourcing relationship. Confidentiality covenants are necessary to better protect confidential information.

Risk allocation

Typically included in the outsourcing agreement are provision limiting each party's liability for direct damages and excluding each party's liability for indirect damages. The parties may also allocate risk through indemnities, disclaimers of liability, and insurance.

Dispute resolution

Procedures for the resolution of disputes that fall short of termination or litigation should be included in the outsourcing agreement. The outsourcing agreement should contain terms regarding the provision of services and payment of fees during resolution of dispute.

Termination

The termination provisions should specify the circumstances under which one or both of the parties may terminate the agreement and the effect of termination or expiration on the rights and duties of the parties (e.g. a party may not continue to obligate under a non-competition covenant in the outsourcing agreement if the other party has materially breached that agreement). The outsourcing agreement should also include terms regarding the provision of termination transition services.

Other issues

The parties should consider and include provisions regarding audit, disaster recovery/business continuity, data privacy and protection and tax (Kirchhoefer, 2005).

2.7.6 Project transition and Transitioning Resources

During this company should:

- Adjust team roles
- Compare/merge transition plans
- Address transition issues
 - Communication
 - Human resources
 - Other factors
- Meet with employees
- Make offers/termination
- Provide counseling
- Physically move (Greaver, 1999, p.19).

After signing the contract an organization is not ready to put the outsourcing relationship in motion. The company needs to initiate the outsourcing activities. The first thing is that the company must be prepared to be loose and flexible rather than stay rigid. While a good contract and adequate negotiations will help out during project transition and governance, it will have minimal effect on the initiation stage. It is important that company do not get too excited about the outsourcing contact during the initial period and instead focus its energies on getting working relationship in order (Desouza et al., 2006, p.134).

During project initiation, several companies face different critical issues. These issues are shown in a figure below.

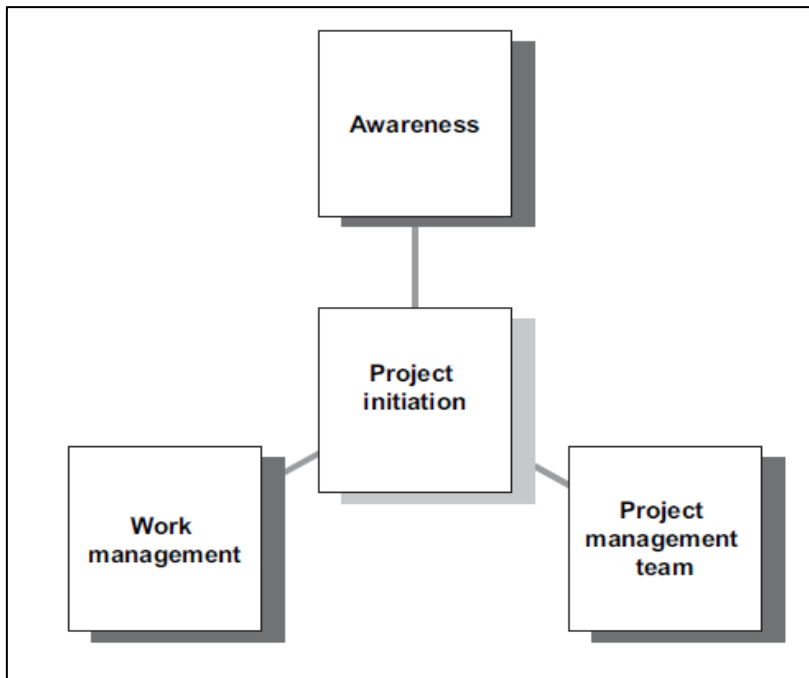


Figure 10 Critical issues in project initiation (Desouza et al., 2006)

Awareness deals with making sure that all stakeholders are aware of and familiar with the terms and condition of the negotiated contract. This will enable everyone to be on the same page and work as a unit with a common undertaking to make the outsourcing relationship a success. Secondly, the company must establish a team to oversee the project initiation and transition phase of the outsourcing life cycle. This team should comprise domain experts and be managed by a program manager who must oversee the outsourcing project. Third, the company must map out the key tasks that need to be performed. There will a number of tasks that need to be attended to during the initial stages and these must be clearly identified. Once identified, the company must look at the dependencies across the tasks to come up with a workable plan. In addition, it must focus on what is crucial in the immediate period. It is beneficial to concentrate on a few issues and sort those out, rather than attending to all issues in a haphazard manner and getting nothing resolved (Desouza et al., 2006, pp.139-41).

Company transfers equipment, facilities, and software and third-party agreement to the provider in its transition phase. This is the time to start getting to the crux of the outsourcing engagement by sourcing out control to the vendor. Once the vendor has access

to the control, it may locate operation within the company's premise or move away the whole process to its own location. When the process is taken far from the organization premises, it makes outsourcing process difficult and might create big issue to the outsourcing company. Hence it is essential to agree beforehand about the location of the project where it is going to be carried out. At this stage, the role of project team is over except of the project leader and then comes in the relationship team. At this very stage, role of relationship manager is defined which may include duties like receiving report from the provider, plan a smooth transition process, co-operate with the provider, human resource function and possible outside adviser and advisor to the employees (Greaver, 1999, pp.253-58).

There are certain issues that company may face during the project transition phase. However, these issues can be avoided with certain effort and carefulness during the phase. All these expectable issues are illustrated in a figure below.

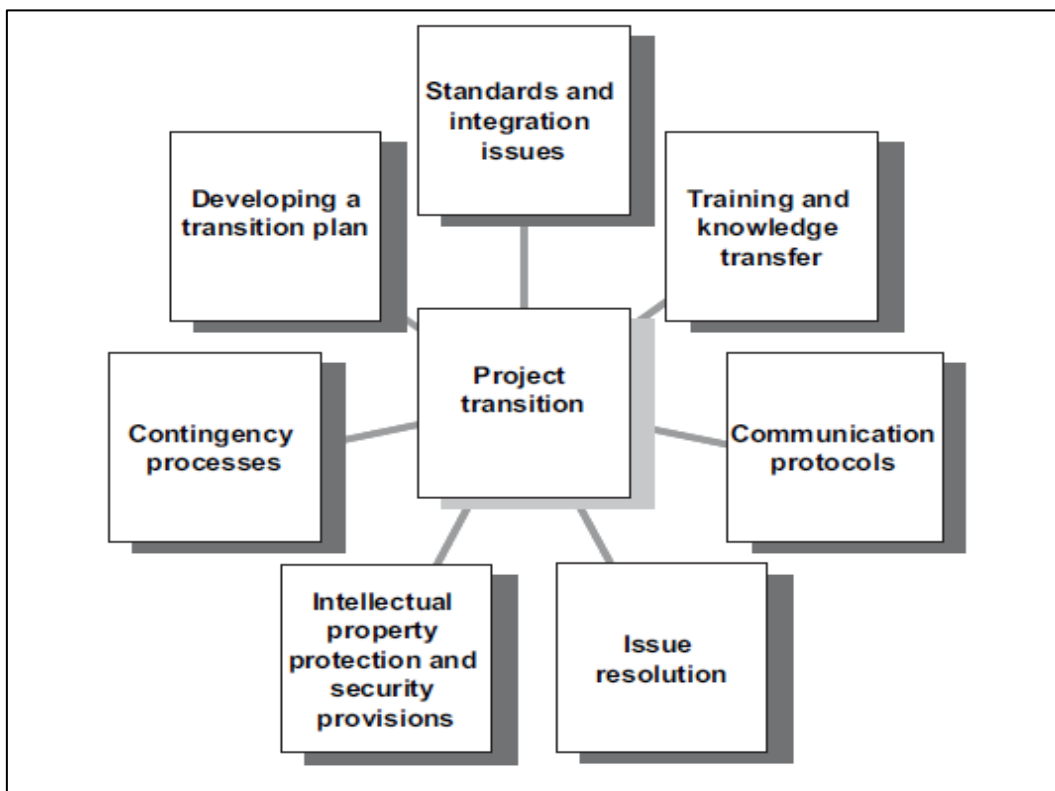


Figure 11 Issues during project transition (Desouza et al., 2006, p.142)

2.7.7 Managing Relationships and Reconsideration

During this step company should:

- Adjust management styles
- Set up oversight council
- Communicate
- Design meeting agendas, schedule, performance reports
- Confront poor performance
- Solve problems
- Build the relationship
- Renew or exit the contract (Greaver, 1999, p.19).

After the process is outsource, management relation with the process and a new relation with the providers begins. The best way to build a successful relation depends on the degree of involvement from the parties in monitoring performance, evaluating the results and resolving problems. To build a successful relationship, both parties should trust and commit equally. Together it stands and separate it falls. Relationship is created among the people and not on the contract paper. It can be monitored by constantly carrying out thorough periodic reporting, meetings and auditing. When reports are made, they should include information of current period, year to date cumulative information and projections of future performance and results. The agenda of meeting should focus on discussion of performance results and other operations issues. An in the end both party should be able to audit the other party's records (Greaver, 1999, pp.29,275-278).

Any problem and misunderstandings should be shared and mutually worked to find a suitable solution. These problems could be related to people, process, technology or other possible issues. For instance, loss of key people, poor performance, and problem related to operation set up and problems with acquisition, implementation and maintenance equipment. Both parties should be aware of proceeding and options after the termination of contract. They can mutually renew the contract or a new competition could be arranged (Greaver, 1999, pp.29,282-285).

The key elements that should be managed in outsourcing relationship management are shown in the figure below.

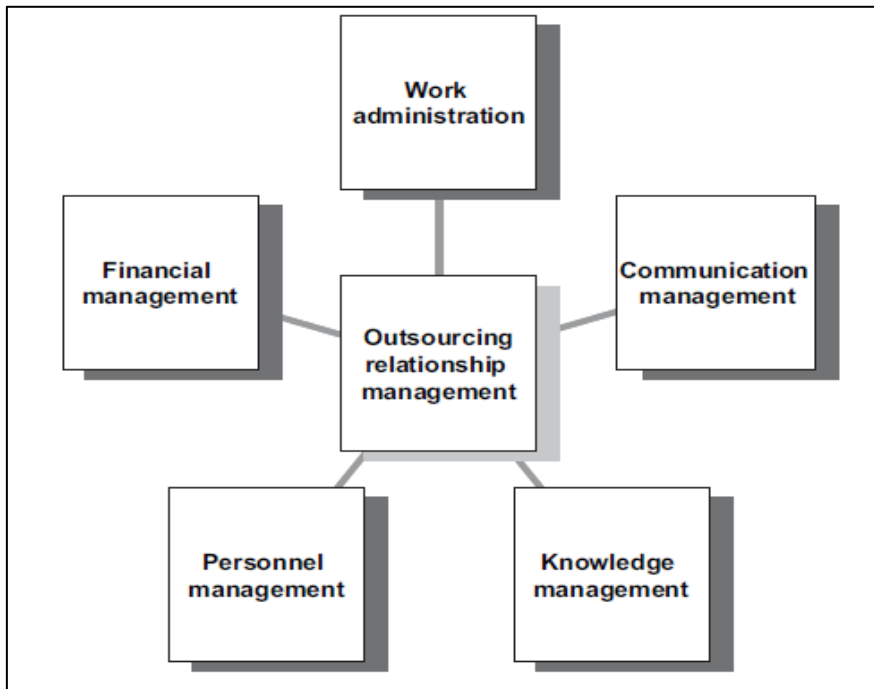


Figure 12 Key elements of outsourcing relationship management (Desouza et al., 2006, p.155)

2.8 Summary of the outsourcing process

To sum up the entire process, a figure has been shown below.

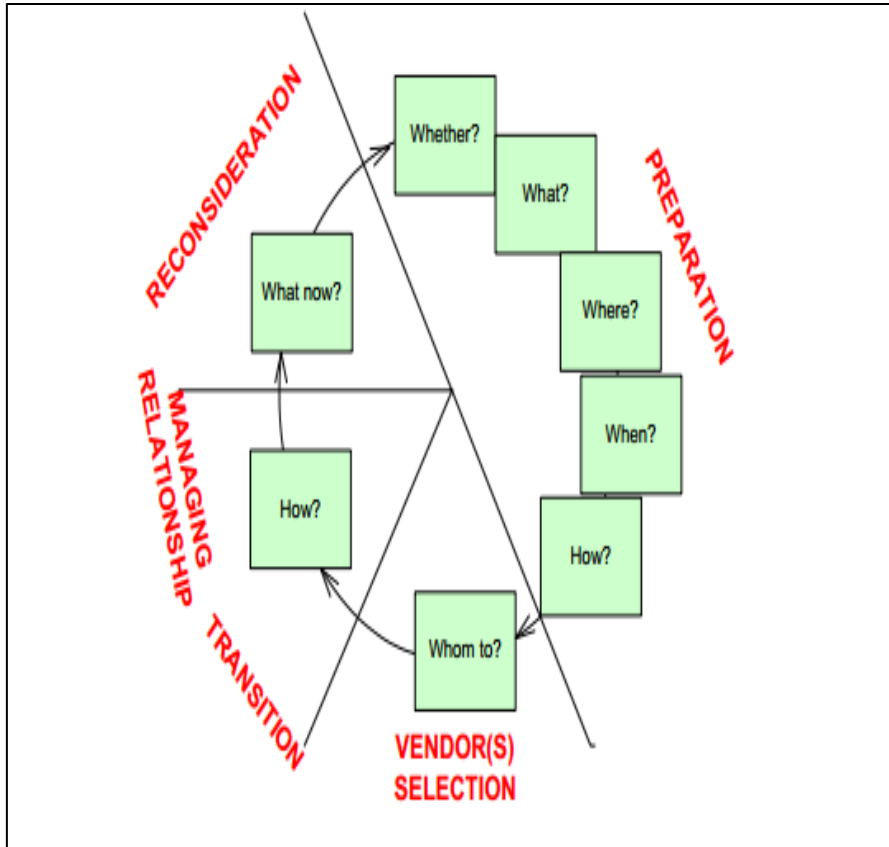


Figure 13 Framework of the Outsourcing process (Perunovic Z., 2006)

A more detailed insight into the content of outsourcing process is given in the table below.

Table 1 Key issues and activities within the outsourcing process (Greaver, 1999)

Phase	Key activities	Some key issues
Preparation	Strategy Sourcing options Approach	Underlying philosophy Why and what to outsource Big Bang Incremental Piecemeal
	Configuration	Many suppliers Preferred suppliers Prime contractor with subcontractors Sole supplier (one stop shop)
	Screening of potential vendors Preferred relationship Preferred length of the contract Drafting the SLA	Contractual or collaborative
Vendor(s) selection	Announcing outsourcing	RFP Evaluation
	Choosing the vendor Negotiating Finalizing the contract	Creating a win-win situation Type, flexibility and content of the contract
Transition	Defining communication and exchange of knowledge and information Transferring assets, people, information, knowledge, hardware, software	Change management Reengineering Adopting organizational structure and processes
	Human resource management	Job loss, transfer
Managing relationship	Type of relationship	Reciprocal Client dominant Vendor dominant Preferred vendor
	Maintaining relationship	Contracts Trust Hostages
	Handling meetings and communicating Performance monitoring and evaluation Applying incentives and penalties Solving problems Re-negotiating and managing variations Managing success factors	Economic factors Character of the exchange Co-operation between buyer and supplier Distance between buyer and supplier
Reconsideration	Reconsidering	Continue Change vendor Backsource Switching costs

3 EMPIRICAL RESEARCH AND STUDY

3.1 Accounting Requirement by Finnish Legislation

Nearly all the corporations and organizations in Finland are required to keep accounting records. In addition, a person engaged in business activities must keep record of his/her financial activities. The general accounting norms are applicable to any reporting entity and can be considered to be the accounting act and accounting ordinance. Furthermore, there is special accounting provisions included in a number of special acts.

The present accounting act of 1997 is based on the fourth and seventh EC company law directives, i.e. the so called annual accounts and group accounts directives. Following their titles, they govern the contents of financial statements, while current accounting basically remains subject to national regulation. The general task of financial statements is considered to give a right and sufficient picture of the return on the activities of the reporting entity and on its financial status.

International development is leading to increased international harmonization of financial statements. The EU Council of Ministers adopted in June to draft the consolidated profit and loss accounts in accordance with international 2002, the so-called IAS Regulation, which obliges the member states publicly listed companies accounting standards (IAS standards). Member States may also freely decide on wider scope of the Regulation and thereby of the standards concerned.

The accounting board operating under the auspices of the Ministry of Employment and the Economy is to give instruments and opinions on the application of the accounting act. The board may also, for a special reason, grant exemptions from certain statutory provision of the accounting act for a fixed period of time.

Following Finnish legislation provides guidelines for accounting and reporting's.

- Accounting Act (1336/1997) and Accounting Ordinance (1339/1997)

- Ordinance on the Accounting Board (784/1973)
- Different decisions made by the Ministry of Trade and Industry (Economy, 2013).

3.2 Financial services providers in Finland

There are numerous firms that are focusing on financial service outsourcing business which are certified by the Association of Finnish Accounting Firms (AFAF). These firms are obliged to follow Accountancy Act and Ordinance of Finland and they also follow the guidelines published by AFAF.

Accounting firms provide services that improve and complement the business of the client company. Service provided includes:

- keeping accounting records, accounting, tax returns, payroll calculation, cost and budget control, preparing annual accounts, invoicing
- advice and consultation
- education
- business administration and management services

A reputable accounting firm will provide information which is up-to-date and relevant to the client. They also correctly present the company's figure.

It is advisable to outsource accounting services from accounting firms that are certified by the AFAF. It is more reliable and profitable to concentrate on own core business and leaving figures to the certified experts. Using an authorized accounting firm guarantee value for money and the expertise is always there. It is strongly recommended that the accounting firm and its client do a formal written agreement on the scope and price of the services to be supplied. Common terms of payment are an hourly rate, a fixed charge per entry or a monthly fee. As a client, always request a cost estimate and keep your costs down by making sure you fulfill your part of the deal (taloushallintoliitto, 2009).

There are several accounting firm listed on AFAP, and some of the popular firms are Pretax Accounting Oy, Visma Services Oy, Tietolli Consulting Oy, Satakerta Oy, Tale-nom etc. SOK Palveluässä (taloushallintoliitto, 2009).

3.3 Reliability and Validity of the Research

The extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of the study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Validity determined whether the research truly measures that which it was intended to measure or how truthful the research results are. In other words, does the research instrument allow you to hit “the bull’s eye” of your research object? Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others (Joppe, 1998).

Best analysis can only be done when the collected data is reliable and valid. The authors have tried to collect data from different sources and different group of entrepreneurs those are involved in sole entrepreneurship and partnership businesses. Since the data is collected from different sources, one can easily raise questions on validity and reliability of the results deduced by the authors.

Most of the entrepreneurs who were surveyed speak fluent English and the one who did not speak English did not agree to take the survey. So, this survey is more appropriate on English speaking entrepreneurs and it has not covered entrepreneurs who speak other than English. The results that are shown and interpreted may alter when all other entrepreneurs are surveyed and analyzed on the basis of thus collected data.

Mostly, the companies that were surveyed belongs to similar industry i.e. service industry. The above result may appear different if companies and entrepreneurs from all or most of the industry are covered. Hence, it is bit doubtful to rely totally on the findings and results without considering these drawbacks. In addition, the reliability of this work also depends on the accuracy of the data provided by the companies and entrepreneurs.

3.4 Data Collection and Research Methods

Empirical research can be either quantitative or qualitative research methods. Quantitative research consists of more numeric and statistical data as opposite to qualitative research. Basically, quantitative methods are used in researches which need a phenomenon to be described and to be understood and interpreted. This thesis work is more like a work that needs more analysis and interpretation. Hence, the authors have used quantitative research methods to collect useful and necessary information that are crucial to complete this thesis work.

In the beginning, target groups were identified and a survey questionnaire was designed accordingly. The authors have mainly targeted small entrepreneurs and mid-sized companies with very few workers. The survey questionnaire paper had 10 questions which would answer to the research questions. Each question consisted of several objective answers that had facilitated entrepreneurs to choose alternatives which are most relevant to their outsourcing activities. Each question has their own importance in providing solid information for analysis and interpretation. Mainly, these questions tried to gather information on responder's outsourcing activities, financial service outsourcing, objectives of outsourcing, benefits of outsourcing, impacts of outsourcing, and costs of outsourcing, company forms and level of satisfaction. Thus, the information collected from the survey shows general image of responder's outsourcing activities and hence provides authors a solid basis for analysis.

The survey questionnaires were distributed in paper format to nearby shops, restaurants, pizzerias, beauty salons, and many other entrepreneurs located nearby. They were asked to fill the form by choosing the alternative that appropriately matches their outsourcing activities. More than 100 entrepreneurs and companies were visited to conduct the survey. Out of them, only 73 had responded to the survey questionnaire. The visit was arranged either with an appointment or without an appointment. Most of the company's representative required appointment but small entrepreneurs did not require any kind of appointments. The biggest problem faced during the research was language barrier. Nevertheless, the authors have succeeded to collect enough data that is sufficient to work on this thesis.

3.5 Results and Analysis

The data acquired from the questionnaire was transferred to excel and then transformed to different charts, figures and statistical calculations. The transformation was made according to requirement of the thesis. All data were analyzed on following basis:-

- Business form
- No. of Workers
- Services outsourced
- Financial services Outsourced
- Total Outsourcing costs
- Objectives of Outsourcing
- Benefits of Outsourcing
- Impacts and level of satisfaction.

Mostly, excel tools like bar graph, pie-diagram, scatter diagram and statistical tools like mean, standard deviation etc. are used to analyze the data.

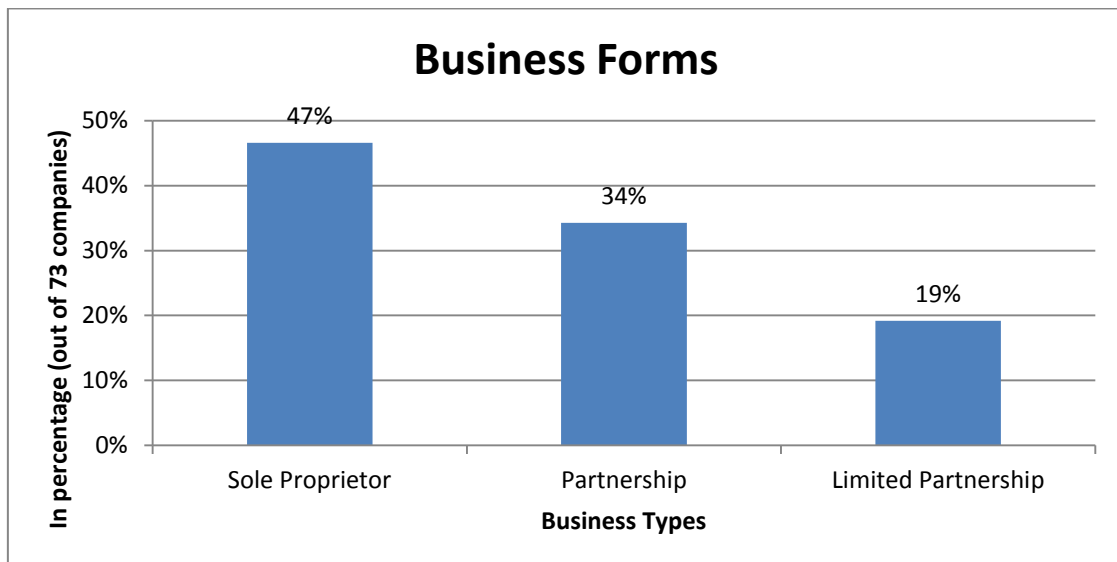


Figure 14 Surveyed Business Forms

The above figure shows different forms of business that were surveyed. It shows that almost half of the responders belong were sole proprietor, about one-third were in partnership business and one-fifth in limited partnership business.

In sole proprietorship, there is a sole owner who rules the business and also personally liable for all the firm's obligations. A partnership or general partnership is a business form owned by two or more persons and is personally responsible for all the liabilities. Whereas limited partnership is a business having two types of partners; active partners and limited partners. Active partners are responsible for all decisions and have infinite liability. On the other hand, limited partners do not enjoy decision power but have limited liability to the amount invested and do not cover any loss from the business personally.

The data was then analyzed on the basis of numbers of worker and it was transformed to a pie-chart. The figure is shown below.

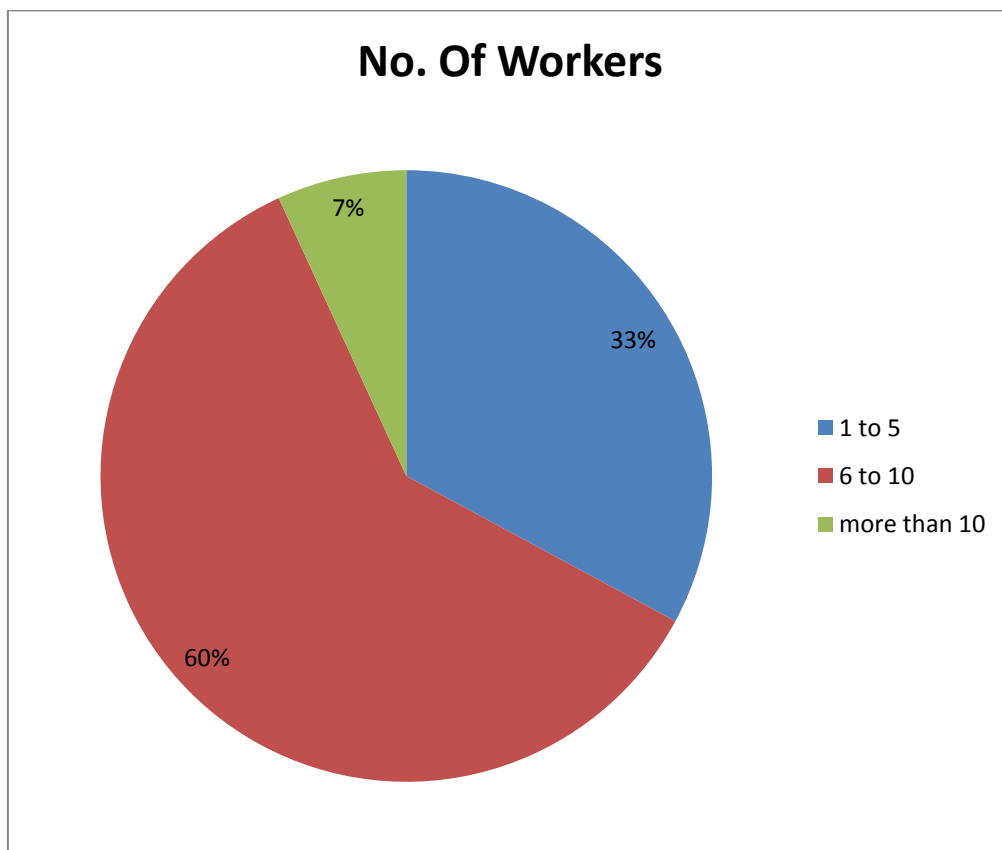


Figure 15 No. of Workers

It is obvious that none of the company have the same number of employees. Among the companies taken in consideration, 60% of the companies have employed the workers which range from 6 to 10 whereas only 33% and 7% of companies are employing 1 to 5 and more than 10 workers respectively.

The data is further analyzed on the basis of services outsourced and list of financial services that are being outsourced by the responders. The result is illustrated with a bar-chart below.

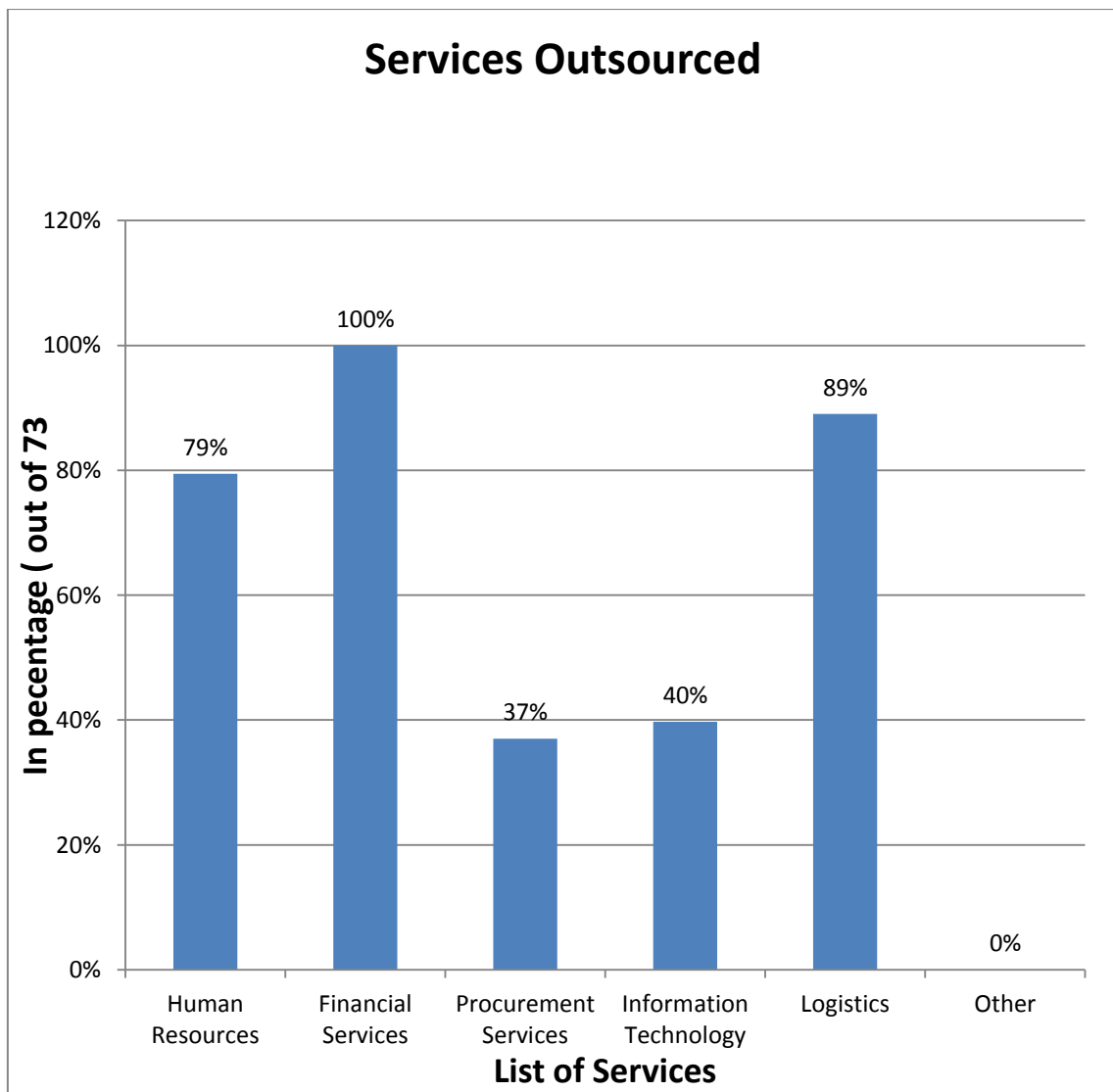


Figure 16 Service Outsourced

Companies outsource many services in order to run business efficiently. Out of the different services outsourced, the financial services, Human resources and logistics are mostly outsourced. In the figure above, financial service has been outsourced by every company and entrepreneur that was surveyed, followed by logistics (with 89%) and Human resource (79%). The procurement services and IT services are the least outsourced with 37% and 40% respectively.

Financial services are the most popular activity that has been outsourced by the companies. The result above has also supported this claim since financial services have been outsourced by every company and entrepreneur (100%) among other outsourced services. Companies have to transport many goods from warehouse to their shop in daily basis and doing it themselves is a tough part. Hence, more and more companies are outsourcing logistics and it eventually resulted in second highest outsourcing activity in the survey. Every employer wants their workers to be creative, efficient and experienced in the task they are hired for. Searching and hiring such talents needs much time which companies cannot afford or in other word it is not fruitful to them. Mostly, companies prefer to outsource this job to outside vendors. This is why the above chart represents that over three-fourth of the companies that were surveyed outsource human resources from outside vendors.

Information technology has forced each and every company in tough competition and also it has helped company to operate more efficiently with less labor force requirement. Most of the entrepreneurs lacks IT skills and do not have sufficient time to focus on learning on these non-core activities. Hence they outsource such services to specializing vendors in order to make a continuous update and be close to IT world. The above survey has also showed that $2/3^{\text{rd}}$ of the responders have outsourced their IT activities.

In order to make a standardized supply of goods and help cost management, most of the time companies outsource procurement services. Receiving inventory, invoicing, order management and approval of goods are some activities that occur more frequently in company's day to day operation. Since these are non-core activities for most of the companies and most likely they outsource such activities to professionals. The above

graph also represents that almost two third of the surveyed company outsource this service. The graph below further explains the financial services outsourced.

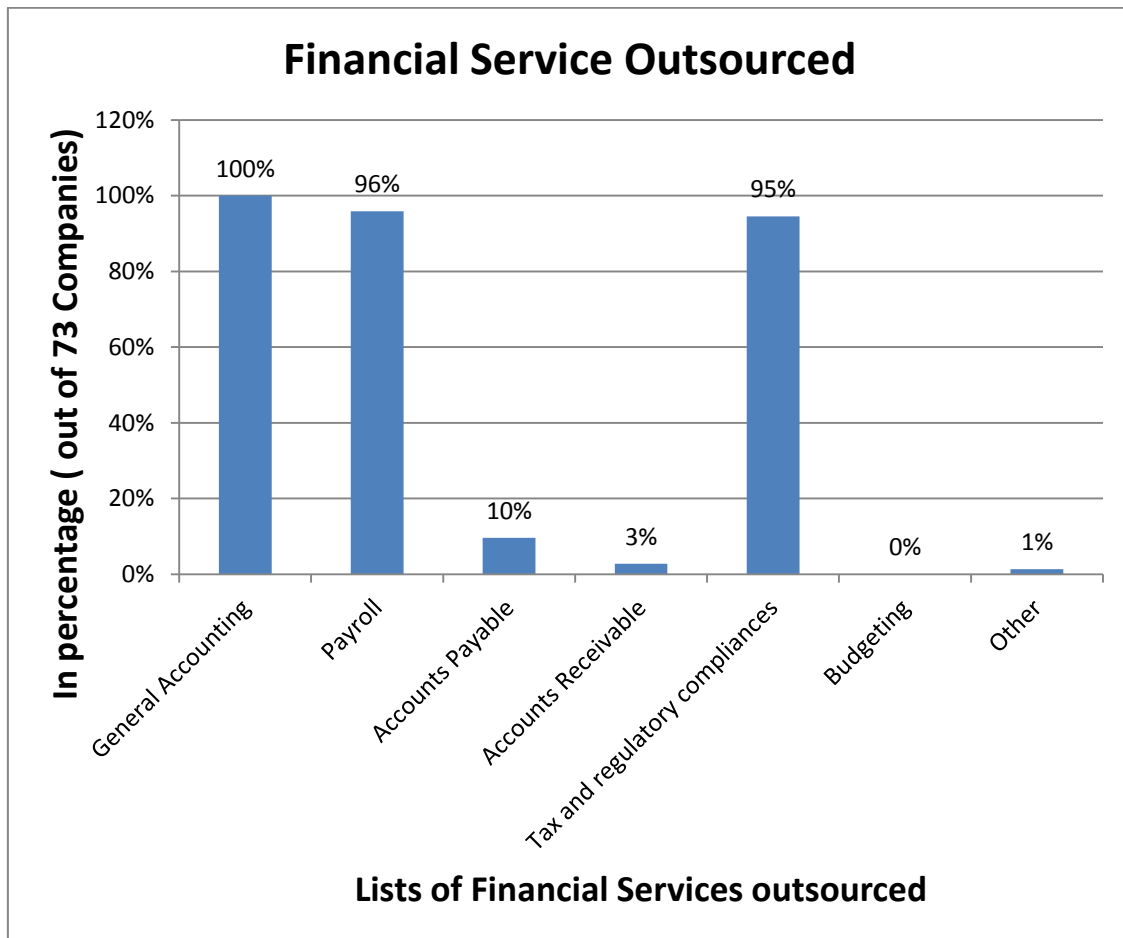


Figure 17 Financial Service Outsourced

The authors have mainly focused on information related to financial services that are being outsourced by the companies in Finland. They designed the survey questionnaire in such a way that they can gather sufficient information to analyze whole financial service outsourcing situation. The survey had provided information enough for solid analysis and discussion. The above graph shows the clear overview of different types of financial services outsourced by the companies. Among all the financial services, general accounting is outsourced by all the companies, which is followed by payroll outsourcing with 96% and tax and regulatory compliance with 95%. Accounts payable was outsourced by 10% of the company surveyed. In fact, every company might have out-

sourced payroll and tax and regulatory compliance which would have then resulted to 100% but in the survey it did not showed. The difference is either due to responders misunderstood them with general accounting or they did not understand the terms used in the survey paper. None of the responder outsources budgeting while very few of them are seen outsourcing account receivable and other services apart from the one mentioned in the questionnaire.

Mostly the companies that were surveyed were either sole entrepreneurs or small companies. None of them were specializing in any activities related to accounting or any other financial activities. It is by law that every companies or entrepreneurs has to keep record of their financial transactions and present it to the tax office and other government bodies especially at the time of taxation or some other purposes. It is of no surprise to see every company that was surveyed has outsourced general accounting. Similarly, most of them have also outsourced their payroll services and tax and budgetary compliances to outside vendors.

The author has also collected data related to total outsourcing costs for a company. Each company has their own total outsourcing costs depending upon their size and nature of their business. The data thus collected were transformed to different charts for analysis.

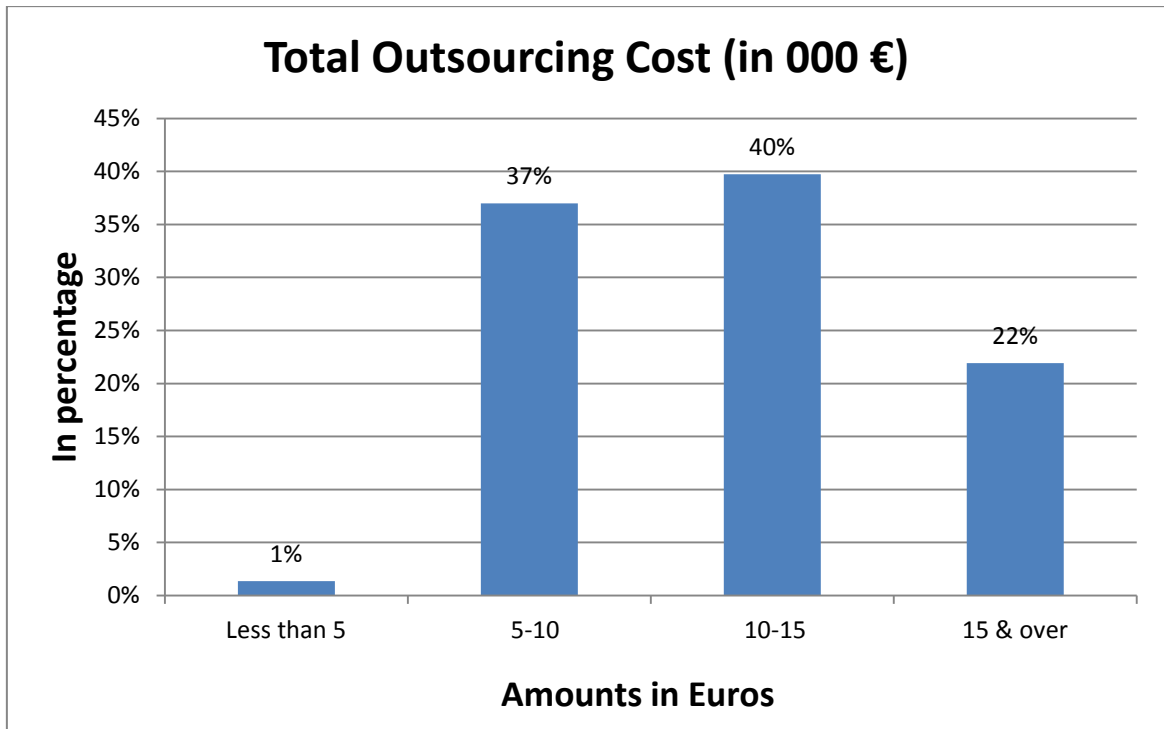


Figure 19 Total Outsourcing Costs

The above figures show the total outsourcing cost to the company in one year. The data is obtained from individual company and then grouped into four different categories according to the range of their cost. 40% of the company has the total outsourcing costs between 10 to 15 thousands, 37% and 22% of the total company falls under the range of 5 to 10 and over 15 thousand respectively. Only 1% of the company has the total outsourcing cost less than 5 thousand. The companies has total outsourcing costs closer to 11000€ which also represent the average total costs of outsourcing by these surveyed companies.

3.5.1 Objectives from company's perspective

In this section of survey, responders were asked about their major objectives of outsourcing. For instance, responders were given choices to choose from following lists:-

- Cost control
- Obtaining expertise, skills
- Increase flexibility

- Improvement in management and controls
- Better use of limited results
- Technology accessibility
- Other

The above mentioned lists are most popular objectives of outsourcing mentioned by different books and research articles. The above list is predefined objectives of outsourcing for responders and in order to cover all other objectives an ‘other’ option was also provide. The author has assumed that the company’s decision makers define their objectives beforehand and designed the survey questions accordingly. The objectives and the outcome from the outsourcing are later compared to measure the success level of outsourcing.

The collected data was transformed into a bar chart that is shown below.

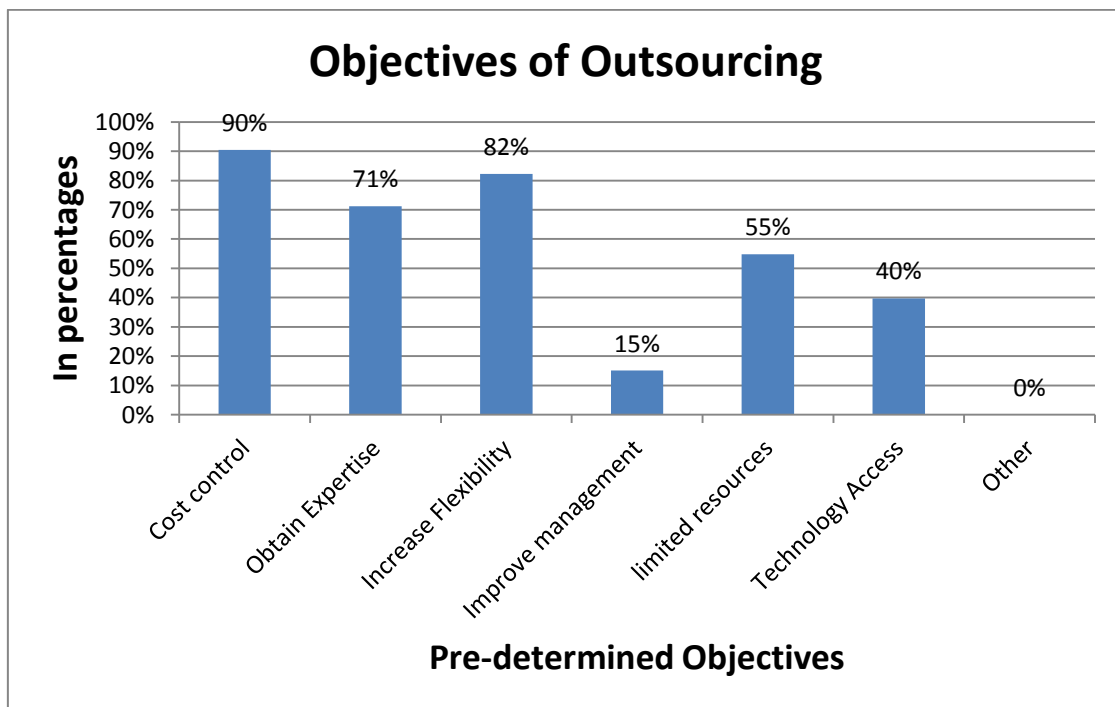


Figure 18 Objectives of Outsourcing

Each bar represents one of the objectives for outsourcing that is perceived by the company. It is found that responders have selected one or more options from the survey questions alternatives that suggest companies have more than one motive for outsourcing. Companies have an average of 3 objectives of outsourcing which suggest companies want to rely more on outside vendors by transferring their non-core activities to professional and focus on their core-competencies to stay competitive and productive.

The x-axis of the chart represents predefined objectives of companies and y-axis show percentage of companies that define the respective alternative as outsourcing objectives. In total, 73 companies have responded and each bar percentage is calculated separately in respect to the total number of companies. However, the data is mainly analyzed on the basis of popularity or more commonly accepted reasons and least commonly accepted reasons.

From the above diagram, it is clear the main reasons for outsourcing are to control cost (90%), increase in flexibility (82%) and obtaining expertise and skills (71%). On the other hand, half of the respondents believe that they can better use their limited resources (with 55%) by outsourcing their non-core business activities. Less than half of them have also outsourced their activities so that they can access rare technologies (about 40%) and hence enhance their performance and overall profitability. At the same time, very few supposed that outsourcing can help in improving their management and control and it is rarely considered as motivating factor of outsourcing (about 15%) by the responders. None of the responders mentioned any reasons other than that of the survey question (0%). So from the above chart, the general theory related to objective of outsourcing can be further deduced to fit this company's aspects has been listed below (neglecting all minor objectives that has less than 20% result):

- Cost control (with 90%)
- Increase Flexibility (with 82%)
- Obtain expertise (with 71%)
- Better use of limited resources (with 55%)
- Access to technology (with 40%)

The authors have tried to discover the underlying details behind this outcome. The first finding explains the nature and skills of entrepreneurs. Most of the entrepreneurs have low level of skills to perform all the required activities of a business process. To get over it, either they should hire a professional or they outsource it to other specializing vendors. Hiring a professional is costly than outsourcing it to service providers and even more efficient and reliable. So, most often these companies opt to outsource it from outside vendors. This behavior proves that companies are more reluctant to reduce their operation cost and outsourcing it to vendor is easiest way to reduce the cost. It can be further related to availability of vendors in Finnish markets. Recent data shows, there is fierce competition going on among this vendors which has resulted very competitive prices for the services offered by them. Due to competitive cost of outsourcing, companies outsource decide to outsource their non- activities to vendors rather than spending time and resources on it.

Secondly, labor costs in Finland as well as obtaining new technology cost is extremely high, thus, budget of small companies may not be sufficient to obtain it by them. So, small companies with low budget have taken smart move to transfer these costs to the vendors that are specializing in these fields. In that way, companies get relief from big costs and also get better services from these vendors. On the other hand, the required investment money is saved by the company and is used on project that has closer link to their core business. Apparently, companies outsource their non-core business and save their money and time to invest on their core business. This makes companies more flexible with their time and available money and led them to concentrate on their main business area.

However, it is also seen from the bar-diagram that companies consider improvement in management control as least popular objectives among the outsourcing activities. Mainly, small companies with less worker does not need outside vendor to manage their work and help them to control their business activities. It is mostly popular among big organizations that outsource their management services from countries like Philippines and other Asian countries. But for this case, companies are extremely small to do so. Hence the result has also shown very small number has actually outsourced it. Further-

more, the figure also illustrate that half of them also outsource their activities in order to use their limited resource efficiently.

3.5.2 Benefits and Impacts from company's perspective

The respondents were asked to answer to the question related to benefits of outsourcing by choosing different alternatives provided on the survey paper. The research is based on pre-assumption that the company would have realized various benefits from outsourcing and a list of such benefits has been formed. The lists of benefits that companies might have realized from outsourcing are:-

- Focus on Core Business
- Cost reduction
- Increase in Efficiency
- Access to Expertise
- Improvement in operation controls
- Increased flexibility
- Develop internal staff
- Other...

These alternatives were smartly linked to the alternatives of question related to objective of outsourcing. The authors were interested to see if the companies have achieved their objectives or not. In other words, whether the benefits thus realized from the outsourcing have met the expectation of the companies. In the end, the data were transferred to excel and examined. Mainly, statistical tools were used for evaluating the data. The most appropriate tool employed for analysis is bar graph.

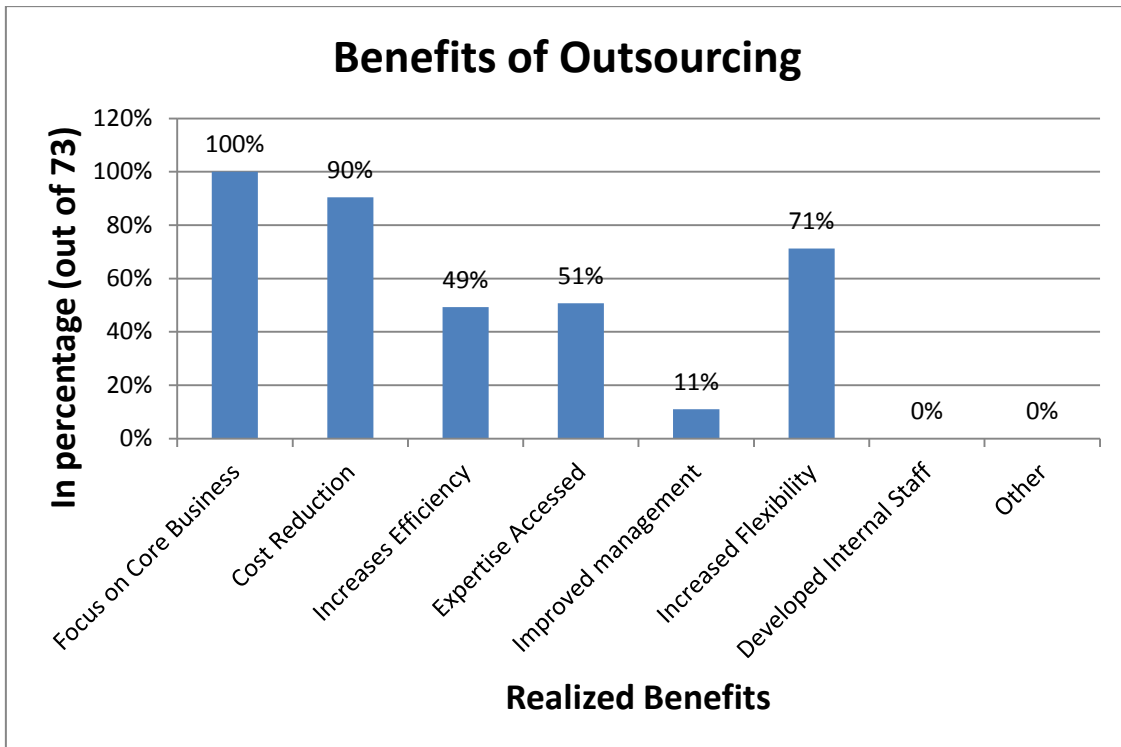


Figure 19 Benefits of Outsourcing

The x-axis of the bar graph represents the realized benefits and the y-axis of the bar graph represents percentage of companies that has realized the respective benefits. Each bar shown in the above figure represents one of the benefits of outsourcing perceived by entrepreneurs and companies.

The above results indicates that each of the responders believe that outsourcing facilitat-ed them to focus on their core business (with 100%). It is because most of the non-core business activities were outsourced to outside trusted vendors and companies have suf-ficient time to focus on their core business. In addition to this, reduction in cost (with 90%) and increase in flexibility (with 71%) are also popular benefits that responders have experienced from the outsourcing activities. About half of the respondents also noticed increment in their efficiency and have access to expertise from outsourcing ac-tivities. Responders do not believe that outsourcing had any advantages on their internal staff development but some of them see basic improvement in their operation controls.

The above listed alternatives are most popular benefits seen by many companies all over the world. The survey result has shown different situation in Finnish case. The benefits of outsourcing can be further modified to fit the Finnish perspective. The modified list mentioned below (assuming alternatives below 30 % score are negligible).

- Focus on Core Business (100% result)
- Cost Reduction (90% result)
- Increased Efficiency (49% result)
- Accessed Expertise (51% result)
- Increased Flexibility (71% result)

The list of benefits has shrunk to 5 alternatives which are mostly realized by the outsourcing companies. In other word, the survey suggested that companies have mostly experienced benefits that are listed above (modified benefits). The reason for this change rely on different factors, for instance the success of outsourcing, quality of outsourcing, nature of outsourcing activities, etc. The first alternative indicates that companies has benefitted because they had totally focused on their core business after outsourcing their services. This further suggests company has totally outsourced their all non-core activities and concentrated mainly on their core business. This is possible because Finnish market has various vendors that are specializing in different processes and activities, and the outsourcing companies enjoy their freedom to focus on enhancing their values and products or services by outsourcing their less important activities to these vendors.

Similarly, realization of cost reduction is of no surprise. As mentioned earlier, Finnish labor market is extremely expensive. The idea of hiring professional and getting the job done might increase the cost for these small companies. On the other hand, the competition among the vendors is so fierce that the overall cost of providing services is cheap and affordable. Hence, with the decision to outsource their less important activities to these vendors, companies have realized control in their operational costs. The companies have also experienced increment in their efficiency, flexibility and also have gained access to expertise and skills. It is of no doubt that they have experienced increase in flexibility and efficiency because all the non-core activities were outsourced to experts and specialist of Vendor Company which has resulted in efficiency. Companies have

also outsourced technical tools from vendors which would have imposed huge cost on them if they had bought themselves. But the outsourcing practices have helped them to access the technology with a very low cost and use it to their benefits.

The questionnaire has also tried to collect information from responders on impacts of outsourcing to their overall business performance. They were primarily asked to respond whether they have seen any positive or negative impacts to their business. The information was collected and then proceeded to excel and finally analyzed. The result from the survey is shown in the figure below.

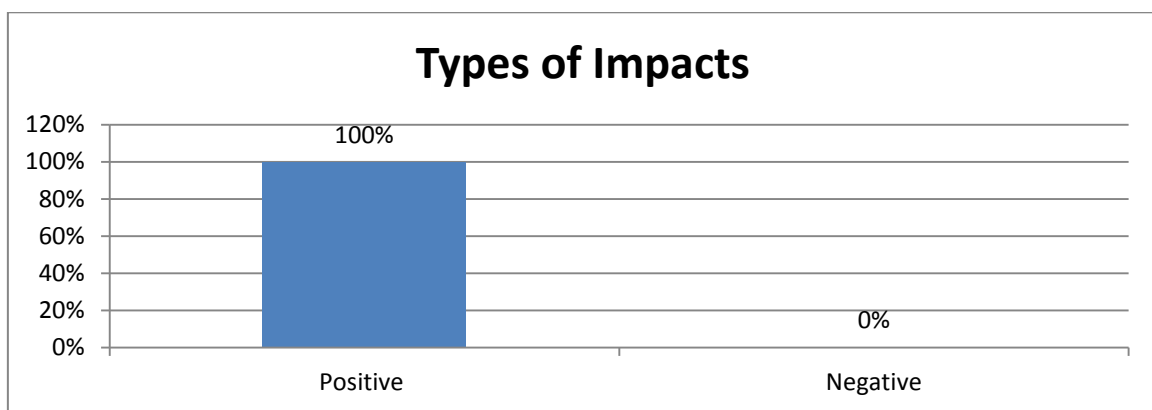


Figure 20 Types of Impacts

From the figure above, it is clear that all of the responder have witnessed positive impact on their company and are fully satisfied from their decision of outsourcing activities. The objectives and benefits section have made clear that most of the companies have achieved for what they have outsourced. Hence, the above result does not bring any surprise to the authors.

In the later part of the survey, the questionnaire has also collected crucial information on outsourcing experience rating from the responders. Basically the idea was to collect any bitter experience of outsourcing faced by the responders. A scale from 1-5 was provide and responders were asked to rate their level of satisfaction. The scale has 1 for very poor level of satisfaction and 5 for excellent level. The data thus collected was ana-

lyzed and a pie chat was constructed to provide clear understanding. The chart is displayed below.

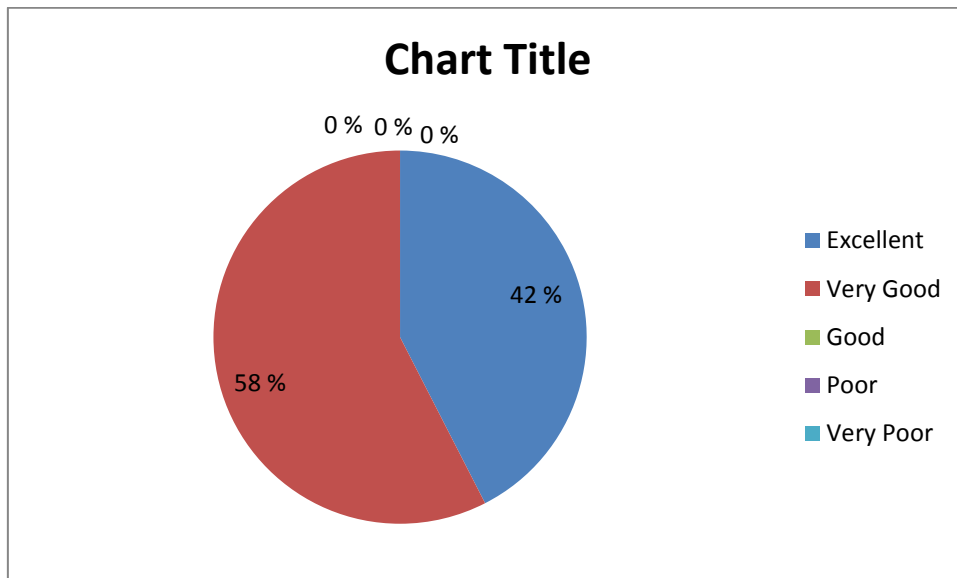


Figure 21 Level of Satisfaction

From the above figure, it is clear that most of the responders are extremely satisfied from their outsourcing activities and around 2/5th of them are happy from their outsourcing activities. The results seen in from benefits and level of satisfaction can be used to support this result. Since, all the companies has seen positive impacts on their compa-nies overall performance, this result is acceptable.

4 CONCLUSION

The purpose of this research is to identify the possible motivating factors that have trig-gered small and mid-sized companies to outsource their financial services. Moreover, authors have also reviewed the benefits of outsourcing from the company's point of view and examined the overall impact on company's performance. In addition to this, they have also studied the company's level of satisfaction from their outsourcing activi-ties.

In the literature part, the authors have provided detailed information on the various areas of outsourcing. Initially, they have covered information related to general outsourcing and its different forms along with its objectives, benefits, risks and impacts. Furthermore, they have covered different levels of outsourcing processes including the required activities to be performed in each stage. This information will act as a guideline for companies that are planning to outsource their business activities.

For the empirical part, quantitative research method has been employed. Since the required amount of data for the analysis was large, so the most suitable method, among all the available quantitative methods, is a mass survey. Survey is considered as most reliable and efficient method of collecting huge data. The survey questionnaire has been designed in such a way that it can cover the areas that is relevant to answer the research question and fulfill the research objectives. These areas include outsourcing activities that were outsourced, financial services that were outsourced, company's perceived objective, realized benefits, impacts of outsourcing, level of satisfaction and overall costs of outsourcing. The data collected have provided solid base for strong analysis and discussion.

Outsourcing is becoming a common practice in today's business activities which is adopted by almost every company all over the world. It's obvious that Finland cannot be an exception. It has been clear from the survey result that companies that were surveyed have outsourced an average of 3 business activities to outside vendors. Mostly it is found that companies outsource their non-core business activities in order to stay efficient and profitable. Doing so, they attain flexibility and have more time to focus on their core business. Such practice has been also seen in Finland. Most of the services that were outsourced are categorized as non-core activities of surveyed companies. Companies have outsourced mostly financial services, logistics, human resources and also some of them have outsourced IT related services and procurement services.

The objective of the research work is to deeply study the practice of financial service outsourcing in small and mid-sized companies. Basically, companies outsource financial services like general accounting, payroll, account payable, accounts receivable, tax and regulatory compliances etc. The lists of financial services that are outsourced highly

depend on the form of business and size of business. Since the surveyed companies are small and mid-sized, their financial service outsourcing also varied compared to other companies. The results indicate that all of the companies in our survey have outsourced general accounting, payroll services and tax and regulatory compliances services from outside vendors.

The general objectives of outsourcing, mentioned in the previous part of the literature, are perceived as main reasons for outsourcing all over the world. Similarly, the benefits mentioned in the literature are also considered as general benefits of outsourcing by companies all over the world. But in case of small and mid-sized companies in Finland, the case is found different. It is found that most of the companies have outsourced in order to control cost, gain flexibility. Half of them have also considered better use of limited resource, obtaining efficiency and access to technology as other major motivating factors. Most of them have also seen reduction in their overall costs, access to expertise and skills, increase in efficiency. Although, the benefits and objectives from the survey are not exactly same as general perception but somehow they overlap to the theories accepted all over.

In the end, when companies were asked about the impacts of the outsourcing on their business. All of them have found positive impacts on their business operation and has rated an average of 4.5 on a scale of 5. This gave a solid basis for the authors to conclude that, outsourcing has not only met the objectives of companies, but have also benefitted the companies. The level of satisfaction indicates that companies are satisfied and happy with their outsourcing activities and the authors have predicted a better future of outsourcing practice in Finland. The authors recommend all new startup to consider outsourcing their non-core business to professionals and focus more on their core-business to stay competitive and efficient.

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6 APPENDICES

6.1 Thesis Survey Questionnaire

1. What kind of business are you in?
 - a. Sole proprietor
 - b. Partnership
 - c. -----

2. How many workers do you have?
 - a. 1-5
 - b. 6-10
 - c. More than 10

3. What kind of services do you outsource?
 - a. Human resource services
 - b. Financial Services
 - c. Procurement Services
 - d. Information technology
 - e. Logistics
 - f. Other, Please mention.....

4. What kind of financial services do you outsource?
 - a. General Accounting
 - b. Payroll
 - c. Accounts payable
 - d. Accounts receivable
 - e. Tax and regulatory compliance
 - f. Budgeting
 - g. Any other, please mention

5. What are your objectives of outsourcing these services?
 - a. Cost control
 - b. Obtain expertise, skills (lack of expertise)
 - c. Increase Flexibility
 - d. Improve management and controls
 - e. Better use of limited resources
 - f. Technology accessibility
 - g. Others, Please mention.....

6. What are the benefits from outsourcing from your perspective?
 - a. Focus on core business
 - b. Cost reduction
 - c. Increase in efficiency
 - d. Access to expertise
 - e. Improvement in operation controls
 - f. Increased flexibility
 - g. Develop internal staff
 - h. Any other, please mention

7. Do you see any impact on your business from outsourcing activities?
 - a. Negative impacts.
 - b. Positive impacts.

8. How will you rate your level of satisfaction from the outsourced services?
 - a. Excellent
 - b. Very Good
 - c. Good
 - d. Poor
 - e. Very poor

9. How much outsourcing costs (annual gross costs) to the company?

10. Any reform you want to suggest to the vendors?

a. No (Assumed best service offered)

b. Yes. What?