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"Instead of producing reports for managers, finance now helps them use tools that automate that process."

—Gemvara CFO Erick Sockol, on how to drive finance-department efficiency (page 46)

Cover by Matthew Furman; this page, Bob Stefko

THE INCREDIBLE SHRINKING FINANCE DEPARTMENT

BY ALIX STUART

◂ ERIC SOCKOL, CFO OF GEMVARA

➡ WHEN VETERAN CFO Eric Sockol became the first finance chief at Gemvara, an online customized-jewelry venture, he quickly developed a plan to staff up the finance department in order to boost its productivity, an effort that will entail pulling back into the company some finance work that had been outsourced.

Sockol's strategy, however, won't make much of a dent in the unemployment rate. Even if Gemvara's ➡

revenues hit $100 million, which would roughly match the revenues at Sockol's previous company, business publishing firm TechTarget, he expects Gemvara's finance department to top out at less than half of the 25-person staff he supervised there. Should Gemvara go public, as TechTarget did, he would have to modify his staffing plan slightly, but he says that the number would still fall well below 25.

For the moment, Sockol, who joined Gemvara in 2004, is proud to claim the following: "I can fit my entire finance department in my car, and I have a two-seat convertible."

Welcome to the jobless recovery, finance-style. Already so lean that they often escaped the deep cuts that other departments endured over the past two years, finance departments are slimming down even further as CFOs find new ways to avoid adding staffers as the recession fades.

A combination of increasing automation, new business models, and offshoring has pushed down the average size of a finance staff by 30% over the past six years—to 92 people per $1 billion in revenue—according to benchmarking firm The Hackett Group. That number isn't likely to grow much, at least in the United States, considering that the majority of CFOs (75%) plan to keep domestic finance head count steady in 2011, while only 15% plan to hire, according to a *CFO* survey of more than 150 finance executives (see page 53).

In many cases, the jobs that remain are meatier and more interesting, which is good news for those finance employees who remain on the payroll. But the jobs that went away, usually to offshore locations, aren't likely to come back to the States—ever. "This is not about, 'How many jobs can I save?' It's about, 'How can I save my company?'" says Michel Janssen, chief research officer for Hackett.

That means, Janssen says, that the so-called war for finance talent has shifted in emphasis, from hiring "25 or 50 clerical staff" who can address basic tasks to looking for "a very small number of people" who are analytically minded and who can work with colleagues in lower-cost locations around the globe. Adds Paul Boulanger, managing director of the finance and performance management practice at Accenture: "The demand for finance talent in the United States remains strong, but in many cases it's about a shift in mix rather than an increase in volume."

DON'T BLAME BANGALORE

►► While offshoring has borne much of the blame for rising unemployment in America, Hackett estimates that automation and job consolidation have, in fact, sliced out nearly twice as many back-office jobs as any other factor. In the last 10 years, the average large global company has dropped about 30% of its finance, IT, public-relations, and HR staff, Janssen estimates, with productivity increases accounting for twice as much of that slide as offshoring.

Hackett's assessment jibes with what finance executives say in our recent survey on the topic. Among the two-thirds who have reduced finance staff in the past two years, 82% say they have coped by consolidating jobs among remaining staff, and 47% say they have increased the use of automation, both of which contribute to higher productivity. Interestingly, fewer than 10% have increased their use of outsourcing or offshoring, and only a handful have compensated for cuts to full-time staff by using more consultants or contract workers.

Although often little-noticed, automation continues to reshape finance departments in ways that may not be dramatic, but which, in the aggregate, greatly reduce the number of jobs. At Gemvara, for example, Sockol plans to rely heavily on free, Web-based tools. "Whereas you might have had a couple of people [in finance] doing reports for managers, now a finance person helps the functional managers set up a Google analytics tool, and then Google actually cranks it out every month." He sees little reason to ever go back to hand-tooled reports. "I'd much rather have things automated, because it's easier to scale up."

Burger King, the $2.5 billion hamburger chain that was recently purchased by Brazil-based private-equity firm 3G, has a similar story. Over the past two years, CFO Ben Wells has been on a mission to consolidate and standardize a variety of processes including accounts payable, accounts receivable, T&E expense management, and costs related to fixed assets. He chose not to outsource or offshore any positions but rather consolidate them at a shared-services center in Miami, believing that it made more sense to fix processes and reap the savings internally.

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That move reduced the size of Wells's finance department by close to 20%, a cut made possible, in part, by upgrading accounts-payable technology so it could handle handwritten invoices that persist from vendors like local plumbing shops. "Originally when we did invoice scanning, these tools required a lot of human interaction," notes Burger King senior director of accounting operations Jorge L. Rodriguez. "Now Kofax [the document-management software that the company uses] has algorithms that can handle the old-school bills with minimal staff intervention."

Newer business models, like the e-commerce retail system that Gemvara employs, also shift work to customers. Sockol notes that online selling can, in general, elimi-

Portrait on opening spread by Bob Stefko

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>
> —STEFFAN TOMLINSON, CFO of Aruba Networks

Robert Houser

nate the need for both accounts-receivable invoice managers and collections staffers, since customers enter their own orders and pay instantly by credit card. Many businesses are moving other finance tasks, particularly employee-related ones like expense-report submissions, to self-service models as well, eliminating the need for staff.

Indeed, for those reasons and others, staff in accounts payable, accounts receivable, and general-ledger accounting have been cut the most in the past two years, according to *CFO*'s survey. Among the least-affected are internal-audit, tax, and treasury staff.

ABROAD, BUT STILL ABOARD

▸▸ Offshoring, of course, has taken its toll, particularly on lower-level finance jobs in the United States. According to Hackett, 17.3% of finance roles for U.S. and European companies have moved offshore, a ratio that is expected to increase to 24.4% over the next two years. One reason is obvious: salaries for such workers, particularly in India, can be as much as 80% lower than for an equivalent worker in the United States. That move hasn't necessarily cut overall finance head count for companies, since many prefer to hire workers as overseas-based full-time employees, but it does affect U.S. hiring to a substantial degree.

Case in point: NetSuite, a $166 million software firm that offers ERP systems to small and midsize businesses through the software-as-a-service model. "We've grown finance, but we've primarily hired [in Manila]," says CFO Ron Gill. The firm has had a captive shared-services center there since 2006; it has handled all of accounts payable and the consolidation of financial results, even predating its December 2007 public offering. NetSuite now has more than 200 employees based there, fueled by a "recruitment process [that] looks very much like anywhere else," says Gill. Just this past year, he helped staff up the Manila-based internal-audit team rather than turn more work over to a third party, since many controls that need to be audited for Sarbanes-Oxley are handled in the Manila office already, and the talent in the area is "incredibly high-quality."

Sometimes, offshore finance hiring increases as a result of overseas expansion in other areas. Aruba Networks, a Sunnyvale, California-based $267 million wireless networking and security company, opened an office in Bangalore, India, five years ago to foster offshore research-and-development work. Over the past year or so, it has switched and broadened the focus by migrating back-office tasks from the United States. Now, about 10% of its more than 35-person finance and accounting team is located in Bangalore, primarily doing order-entry work, and the company plans to add more staff there, possibly including someone to generate ad hoc reports for business managers.

"It's not [about] firing anyone," says Aruba CFO Steffan Tomlinson, "but if someone leaves the company and we're looking for a replacement, and if the job function was transactional in nature, we'd most likely look to Bangalore."

That philosophy holds even truer at larger companies, like $4.5 billion semiconductor company Broadcom. "To the extent that I can offload reviewing expense reports to someone in India and not have a business-unit controller review them, that expands the scope of what the controller, who of course is much more highly paid, can do," says Broadcom CFO Eric Brandt. Currently, about 30% of the firm's 220-person finance staff is based outside the United States, both in India and in other key operational bases, like Singapore.

Still, most survey respondents say they're not sure how the pricing and location of offshore and outsourced opportunities will affect their hiring, and, as previously noted, few have moved to that model in a big way.

CFOs should consider carefully where to set up those operations, when and if they do. Curt Espeland, CFO of Eastman Chemical, a $5 billion maker of chemicals, plastics, and fibers, has brought his cost of finance down about 13% since 2002, by leveraging Eastman's centralized transaction work in four financial shared-services centers around the globe—two in the States, one in Rotterdam, and one in Singapore. While the company gains some effi-

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—CURT ESPELAND, CFO of Eastman Chemical

Mike Carroll

ciencies simply through the consolidation, he says he is always looking out for new and lower-cost places to migrate the work, including outside the United States.

However, Espeland is choosier now than he might be if he were just starting the process. "You have to look at how long the labor arbitrage will last, since we don't have as much to gain by moving to a low-cost location," he says. For example, the company just acquired a plant in Estonia, and he considered locating some accounting work there, but ultimately decided against it. Hackett analysis suggests that wages will soon rise in eastern Europe.

Says Broadcom's Brandt: "The problem with outsourcing is that it's attractive from a cost perspective, but if you're unhappy with it, it's hard to take it back in-house, so you have to be confident in your decision long-term."

PUTTING SOME FUN IN FINANCE

►► So which finance jobs are staying in the States? Most fall under the broad rubric of FP&A (financial planning and analysis), and most are evolving from repetitive daily duties into something more interesting and of more value to companies. "Most of the hiring right now is of people who can come in and help the business understand how to run," says John Gimpert, a partner in Deloitte's finance transformation practice. "And those are much more enriching jobs."

Brandt, in fact, expects finance departments to continue to grow for this very reason. (He's grown his department about 60% since 2007, a bit slower than the company's 75% rise in revenues through 2010.) "Business is moving faster and faster, and the need to have [more information and analysis] is only increasing," says Brandt. "To the extent that you can add staff at a rate below revenue growth, finance becomes a great resource to help managers understand trends and patterns."

That, of course, complicates the CFO's hiring task, since it becomes all the more important to find people with the capacity to grow beyond the roles for which they were first brought on. In the long run, though, it should improve retention and provide a deeper bench for promotions.

"If I were a young professional, I would embrace technical skills and the technology [inherent in finance and accounting work], then work on interpersonal advisory skills," says Eastman's Espeland. But, he adds, don't expect the high demand for finance staff that characterized the middle part of this decade to continue: "In the U.S., it's going to be all about continuing to be more productive." CFO

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THE STATE OF THE FINANCE DEPARTMENT

While many U.S. CFOs have made deep cuts, few have taken major steps toward offshoring or outsourcing finance work—so far, at least.

Which statement best describes the current structure of your corporate finance department today versus two years ago?*

- Modest changes in terms of number of staff, location(s) where work is done, and/or use of outsourcing partners: 35%
- Significant changes in terms of number of staff, location(s) where work is done, and/or use of outsourcing partners: 31%
- Essentially unchanged: 31%
- Little has changed, but we are actively exploring some or all of the options listed here.: 4%

If you have reduced finance head count over the past two years, which functions have been affected?†

- Accounts receivable: 45%
- Accounts payable: 42%
- General-ledger accounting: 35%
- Financial planning and analysis: 22%
- Payroll: 21%

ON NEW REGULATIONS:

"The 1099 laws will hurt us, and [require many] recordkeeping changes. If the government had just implemented health-care reform ...we could have focused on that alone. Sliding in the small-business changes, without input or understanding the ramifications, is quite disappointing."

—CFO, small manufacturing company

Over the past two years, has your company:†

- Reduced U.S. finance staff by 1% to 10%: 24%
- Reduced U.S. finance staff by more than 20%: 17%
- Reduced U.S. finance staff by more than 10%: 13%
- Increased U.S. finance staff: 16%
- Established or expanded a domestic shared-services center that addresses finance responsibilities: 11%
- Relocated finance jobs within the U.S. to more-cost-effective locations: 3%
- Established or expanded an overseas shared-services center that addresses finance responsibilities: 3%
- Outsourced some/all finance functions to offshore locations: 1%
- None of the above: 25%

If you have reduced finance staff over the past two years, how have you compensated for the smaller staff?†

- Consolidation of existing roles: 82%
- Greater use of automation: 50%
- Elimination of positions deemed nonessential: 43%
- Greater use of offshoring/outsourcing services: 8%
- Greater use of in-house consultants/contractors: 3%

Do you plan to expand U.S.-based finance staff in 2011?*

- No, plan to decrease it by 6% or more: 3%
- No, plan to decrease it by 1% to 5%: 7%
- No, plan to keep head count steady: 75%
- Yes, by 1% to 5%: 9%
- Yes, by 6% or more: 5%

ON STAFFING PLANS:

"We plan to reduce all staff hours by 10% so no one gets laid off." —CFO, retailer/wholesaler

Assessing the changes you've made to your finance department over the past two years, which statement best describes the department today?

- More efficient than ever, and poised to build on recent gains: 28%
- Functioning adequately but not optimally: 49%
- Strained and in need of additional resources and/or further restructuring: 13%
- In the midst of a significant rethinking regarding where work gets done, and by whom: 10%

ON DOING MORE WITH LESS:

"We have used college-aged students for their fresh, bold approaches. The pay was significantly lower, but they gained tremendous understanding and have contributed in all areas of accounting." —CFO, midsize manufacturing company

Source: *CFO* reader survey, September 2010
* Note: Percentages may not add up to 100, due to rounding. † Multiple responses permitted.