

The Finance Transformation – The Outsourcing Perspective

Contents

1.	An Introduction	3
2.	Market Overview	4
3.	Selecting the Right Sourcing Model	6
4.	Making the Decision	10
5.	Contractual Issues & Governance Models	16
6.	Service Level Agreements and Quality Assurance	19
7.	People Management	24
8.	Business Transformation through Continuous Improvement to World Class Performance	27
9.	Business Transformation through Automation, Innovation and New Technology	32
10.	Sum Up – Transforming FAO	36
11.	Glossary	38

The Finance and Accounting (F&A) sourcing strategy must focus on cost, quality and flexibility. What is more, the days of CFOs looking to offshoring and outsourcing solely for cost and compliance control are gone irrevocably. In the aftermath of the global financial crisis, CFOs are being compelled to balance cost pressures against business outcomes. There is a myriad of options for transforming the organization's finance function into a 'business partner' capable of carving out value by activating effective finance infrastructure; decision-making support; and enhanced assurance. That's why a shared services sourcing strategy – regardless of whether implemented internally or with an external partner – needs to consider how to assure cost reduction and standardization whilst demanding that added value be squeezed out of the back office to drive insight beyond transaction processing.

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Chapter 1: Market Overview

Global Sourcing Market

The Global Finance and Accounting Outsourcing (FAO) market is part of the global sourcing market, which encompasses both in-house and outsourced centralized sourcing of all business and IT functions. For a more comprehensive perspective of the FAO marketplace, it is worthwhile to understand the dynamics currently at play on the global sourcing market, which continues to flourish, with 498 transactions concluded in Q2 2010 (from 444 in Q1 2010). Yet, though more transactions were concluded, they concerned narrower scope and/or shorter terms. In the period, the market heard about the opening of 38 captives by well-known players such as JP Morgan, Oracle, Microsoft, Western Union, Shell, HP, Huawei and Intel. At the same time, 32 BPO delivery centres were set up, mostly in India. Though the transaction volume grew, the aggregate annual contract value (ACV) declined. The growth was led by the BPO market, which witnessed 15% and 33% increase q-o-q in transactions and ACV, respectively. The Banking, Financial Services and Insurance (BFSI) vertical contributed one-fifth of market activity, i.e. 102 transactions in Q2 2010.¹

Global Finance and Accounting Outsourcing Market

The Global Finance and Accounting Outsourcing (FAO) market is differentiated by the scale and experience of delivery that the F&A BPO vendors have. Based on the value of commercial contracts awarded in H1 2010, TPI defined the top 10 service providers in the FAO space as (in alphabetical order): Accenture, Capgemini, EXLService, Genpact, HP, IBM, Infosys, TCS, Wipro, WNS,

Xerox ACS.²

Analysts' forecasts of market value and growth rate vary within a wide band: Compounded Average Annual Growth Rate (CAAGR) of 8-11% to \$16bn-\$30bn market value by 2013. Nevertheless, all predict the market will remain strong and will continue to expand, especially given the fact overall client satisfaction from FAO continues to rise every year

Global Sourcing Trends

Trends in 'why?'

Cost saving remains the key criterion for organisations in the process of defining the right sourcing strategy. But even in low-wage countries such as India and China prices are rising and margins are becoming tighter. "Today, most F&A BPO deals are with clients that want to source F&A administration processes from lower-labour-cost locations and garner better F&A practices. Buyers must look at a provider's quality, and vertical market expertise (which is becoming increasingly important as providers learn about specific industries' finance needs, such as payment terms and supplier types), and global delivery models to ensure a full evaluation of provider's abilities."³ Customers recognise that it is possible for shared services to go beyond transactional/operational work to achieve new productivity gains and new revenue streams by implementing new practices through unique, creative methods of implementing standardisation and automation, driving continuous improvement, and assuring world-class performance.

¹ Everest Global, Inc.: Global Sourcing, Market Vista Q2 2010, 2010, slide E2-3.

² TPI: The TPI Index: An I Market Q2 2010, slide 12

³ Gartner, Inc.: "Magic Quadrant for Comprehensive Finance and Accounting BPO", Cathy Tornbohm, 17 December 2009.

⁴ Gartner, Inc.: "BPO: What Does Good Look Like in 2010?", Cathy Tornbohm, Gartner Outsourcing & IT Services Summit in London, June 2009.

⁵ Everest Global, Inc.: Global Sourcing, Market Vista Q2 2010, 2010, slide II-1.

⁶ Everest Global, Inc.: Global Sourcing, Market Vista Q2 2010, 2010, slide II-5.

⁷ Gartner, Inc.: "Magic Quadrant for Comprehensive Finance and Accounting BPO", Cathy Tornbohm, 17 December 2009.

⁸ Gartner, Inc.: "Magic Quadrant for Comprehensive Finance and Accounting BPO", Cathy Tornbohm, 17 December 2009.

⁹ "Q&A Interview with Tom Bangeman", Shared Services & Outsourcing Network, July 2010, p. 3.

Trends in 'how?'

Organisations are proactively balancing the scope of shared services operations (operating multiple functions and processes and servicing a number of business units from global or regional centres), how they source the services (flexing between outsourced and in-house service delivery under a number of smaller contracts) and where the SSC operates (leveraging the labour pools, shrinking the cost base, and minimizing risks of geographies) across the globe.

Trends in 'where?'

The current BPO offshore delivery locations for F&A are Brazil, Canada, the Czech Republic, Hungary, India, Ireland, the Philippines, Poland and Romania. Based on current trends and market activity, Gartner expects China, Costa Rica, Jamaica, Malaysia, Mexico and Vietnam to come to the forefront, as strong FAO providers.⁴ In Q2 2010, high offshore activity, i.e. the most service centers set up, was noted in China, India and the Philippines.⁵

Low-value transactional processes, requiring limited language skills, are being located offshore and processes requiring customer contact and specialist language skills tend to stay nearshore for a combined delivery model. Notably, half of all Forbes 2000 captive service centers and Top 50 supplier centres set up in India during the last year were in Tier 2/3 locations, i.e. outside the major outsourcing locations. However, this growth has been mainly restricted to third-party suppliers. Captives continue to prefer Tier 1 locations.⁶

Trends in pricing

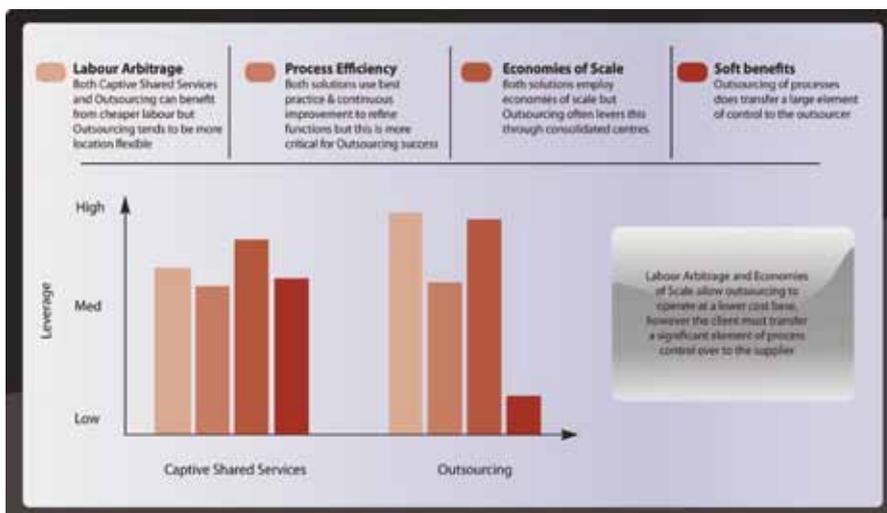
In the last two years, deals are emerging with a blended pricing model, which also utilizes elements of full-time equivalent (FTE) and transactional pricing. Although, the majority of deals are fixed-price or price-per-FTE based with the supplier expected to streamline and standardise accounting processes, organisations are looking to suppliers for transformational services. The use of SLAs is also evolving, in that in the first few years of a deal, buyers stipulate a number of service levels, and as a deal matures, the number and type of service levels used are starting to be streamlined accordingly.⁷

FAO customers have learned that the success of a service from an FAO supplier is directly proportional to the continued input and guidance of the customer's finance and IT team. Research shows that the most satisfied F&A BPO customers actively participate in F&A BPO service delivery issues.⁸ As a reflection of this, some contracts provide for gain-share mechanisms, as well as bonuses for high performance, rather than penalties for low performance. Working in partnership also ensures alignment, coordination and control of both supplier and business needs.

Fearing that their services will become commoditized as reflected in falling revenues and plummeting margins, suppliers are developing proprietary best practices and processes and are advising on and coming up with process improvements. The focus on both sides is to move to a more end-to-end process-oriented view beneficial for both parties instead of just haggling over the production of activities in batches.⁹

Chapter 2: Selecting the Right Sourcing Model

Figure 1 Model options and lever to reap dividends from shared services



Captive Sourcing Versus Outsourcing

A decision to undertake transformational change to back-office operations often culminates in a decision between Captive Shared Services (CSS) and Business Process Outsourcing (BPO). Shared services refer to the grouping of skills into a separate unit and the provision of a common service by the one unit. In the CSS model that grouping is done in-house while BPO is the delegation of the provision of business processes to a third party. Which operating model is chosen depends on maturity, ambition and culture of an organisation. Figure 1 graphs the variance in the key decision levers in the two operating models.

Typical drivers for CSS include:

- Desire to realise all initial cost savings;
- Concern of loss of process knowledge to a third party;

- Fear that BPO may restrict flexibility and cause inefficiency;
- Objective to develop own shared services offering in the market;
- Opportunity to improve internal operations before looking to an outsourcing partner.

Typical drivers for BPO include:

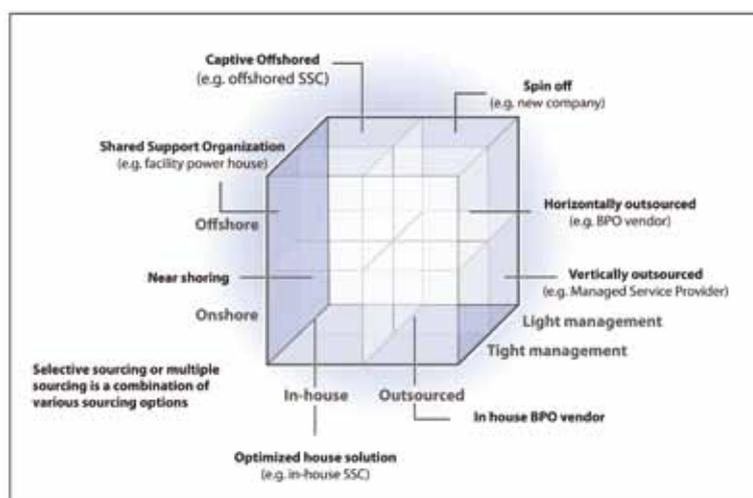
- Decision that back-office activities are non-core and would be better handled by a third party specialist;
- The business is under intense cost pressure and needs to deliver immediate results;
- The amount of spend and/or change required would be very hard to achieve internally and so needs to be handled in partnership with an expert;
- Lack of specialist legal knowledge to run an offshore location.

What is the minimum number of FTE's for the Business Case?

Typically, the size of the BPO deals revolve between 100 to 1000 FTE's or more. Here are some of the arguments that dictate the minimum FTE count:

- The level of change management required within the client's organization versus the cost benefit
- Realizing costs savings due to economies of scales and consolidation
- Typical contract length between 7 to 10 years
- Sites in scope. The more sites are required to be transitioned to the BPO Center, the lower the return as the transitions costs are directly proportional to the number of sites
- SNumber of processes in scope versus the employee count. A higher FTE per process ratio achieves higher returns on investment as it minimizes the transition costs and improves efficiencies

Figure 2 Eight different sourcing modes divided over three axes: ownership, location and management style.



Sourcing Modes

Selecting the right sourcing model means finding the right combination of ownership, location and management. Figure 2 shows how these decision drivers interact to create different sourcing modes.

Ownership Axis

Successful companies are using multiple or selective sourcing not just to save money but as a best practice which increases organisational flexibility and decreases time to market. They are taking a closer look at their processes and subprocesses to decide which sourcing option is best on a case by case basis. Disciplined multi-sourcing offers a new framework for greater control over sourcing decisions and ensures that customer-supplier relationships deliver value and support business strategies.

Location Axis

There are three types of locations in sourcing: onshore, nearshore and offshore.

- **Onshore** offers best cultural and language alignment and access to experienced staff; yet it is not likely the lowest cost option.
- **Nearshore** means cultural similarity but at a lower cost and provides access to highly educated staff. Yet, the staff may not be as experienced and the language skills might be limited.
- **Offshore** is the lowest cost option that provides access to highly educated staff. There might be stronger cultural differences, greater potential for loss of interaction and liaison, and access to language skills is limited.

The terms 'bestshoring' or 'rightshoring' are commonly used to describe the location mix choice in which processes are where the organisation can be assured maximum leverage of the shared services model for a particular business function.

Figure 3 New models blending onshore and off-shore and ownership decisions



Management Axis

It takes a lot of management effort to realize the expected benefits of shared services and offshoring. Poorly managed cost-saving strategies can end up costing far more than the original savings planned. This has resulted in a number of companies pulling back from offshore activities. The key lies in careful planning, implementation and management of the delivery.

Many organisations are combing the models into hybrids for flexibility in assuring the right level of risk and cost savings while maximizing benefits such as improved leveraging of capabilities and expertise. Figure 3 illustrates how the lines between the modes are now blurring, as organizations select and design hybrids to best fit their own business reality and needs.

A Word About Risk

The perceived risks of outsourcing are related to the commercial relationship

between the insourcer and the outsourcer. The benefits of the outsourcing deal might be outweighed by the costs and perceived risks associated with outsourcing in the following areas:

- Operating model
- Knowledge transfer to third party
- Vendor selection
- Negotiating price
- Ensuring quality and continuity
- Organization change management
- Service Level Management
- Vendor governance
- Geographical and political risk
- Data privacy.

Though risk mitigation has been gradually losing in importance as a factor key to sourcing decisions, organization still tend to choose their sourcing strategy based on risk mitigation. By selecting an SSC, organisations want to ensure proximity to the business, avoiding dependency on external suppliers and loss of knowledge.

Case Studies: What Shore is Best?

The integrated distributed model is focused on using onsite, nearshore, offshore, and client teams, with common tools and methodologies to maximize leverage in meeting client's process, language and services needs.

Case 1 – Hub and spokes structure for optimal localization of front and back office support



Company: A global manufacturing business.

Business issue: The company's transactions were executed within each country of operations by localised accounting functions. There were no uniform procedures and no centralised overview of transaction processing.

Solution: Transaction processing moved to two centralized front-office locations plus back-office support. Krakow front office provides problem resolution, collection and other functions that require ongoing contact with client and third parties. Guatemala City front office handles voice services for North America, providing collection activities. Guangzhou Center delivers transactional tasks. Krakow is the command centre for all three locations, driving additional controls, process improvement, and operational conference calls with the client.

Benefits:

- Headcount down 10% after first year and by an additional 5% after second year
- Around 50% cut in cost for the services transferred from US and Western Europe
- Enhanced quality (e.g. error rates reduced as compared to pre-outsourcing)
- Improved control environment, as reflected in cleaner internal and external audits
- Centrally orchestrated and co-ordinated continuous improvement and KPI/SLA compliance assurance and quality control

Case 2 – Centralised F&A function for standardised processes

Company: The Danfoss Group is an international business specialising in the research, development and production of mechanical and electronic components and solutions.

Business Issue: Danfoss had local accounting departments in each European country (plus South Africa), which operated on fairly standard SAP solutions and generated variations in local processes.

Solution: Selected European F&A processes were moved into a single location – Krakow, Poland to assure standardization, optimisation and lower costs.

Benefits:

- Significant productivity savings
- Reduced number of FTE's performing accounting duties
- World-class quality of accounting processes
- High level of transparency
- Standard solution to be applied for the new US and APAC scope

Chapter 3: Making the Decision

In order to make the right sourcing decision, the organization must be clear about the objectives of its sourcing strategy. Whatever operating model and mode is selected, its implementation will not be easy. Thus, it is imperative to involve the right stakeholders. To have the strong support of the executive board a strong business case must be built, one that goes into details, showing a good rate of return and payback, and demonstrating meticulous planning. To clearly know and understand what the change will mean for the organization, change management activities must effectively measured and tracked.

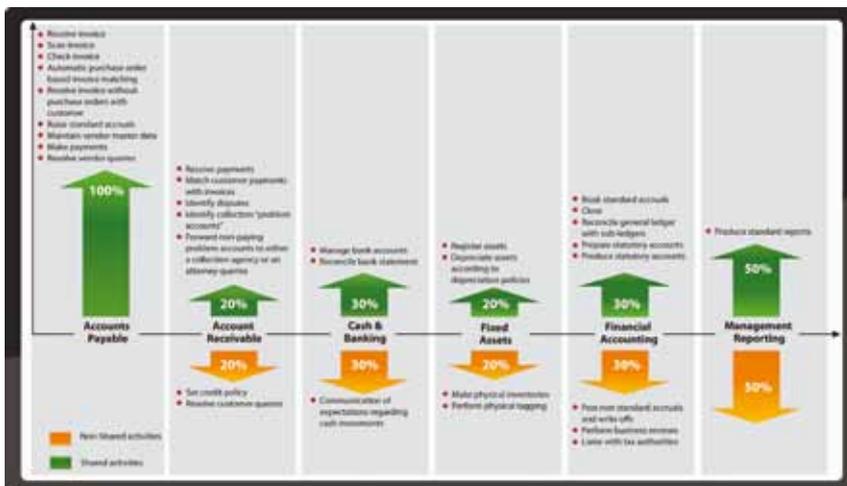
Strong governance is key and the decision process the organization follows must be rigorous, starting with an RFI, (Request for Information) then an RFP (Request for Proposal), also possibly with the assistance of an advisor firm, especially if the organization is making this type of decision for the first time and/or would like to accelerate the process. The more thorough the questions posed in the RFI and the RFP and the more care is taken to ensure the provided responses are incorporated in the contract, the better the contract and the resulting sourcing relationship.

What you can and cannot outsource

The pooling of skills into silos for greater standardisation, automation and control makes sense. Yet, though the benefits derived from such a practice have begun to shift from labour arbitrage and cost cutting to top-line augmentation, what can be outsourced has not changed all that much. The basic rule of thumb is: if tasks can be documented to an 80/20 level or higher, if they can be repetitive, and if they can be learned in no more than six weeks given a certain skill level then they can be sourced. Thus, this model of delivery can be applied to transactional activities, not to value-added activities, decision taking, or strategy and policy. What is important to note is that in most organizations, such transactional activities account for 80% of headcount. Figure 4 provides a clear overview of the typical scope of F&A shared services.



Figure 4 Typical division of business processes into those that can be pooled into shared services and those that cannot.



In order to qualify what would be best to keep in-house and what would be best to outsource, the organization should follow a structured decision matrix. A typical decision matrix will look at the interplay of:

- **Complexity** – the more complex a process, the more likely it is to be delivered in centres of expertise specialized in the processing of a single function;
- **Relationship with the core business** – the higher the strategic impact of the process, the more likely they should be retained in-house;
- **Critical mass** – the higher the volumes and the potential for standardisation, the easier to achieve economies of scale;
- **Local impact** – the higher the local impact (regulations, language, flexibility of support), the more likely to keep activity in the country rather than in a central hub.

Additionally the organisation can conduct a benchmarking exercise to determine maturity and stability of each process and sub-process. Then, process maturity can act as the decision lever for what process or sub-process to outsource and what is better to remain in-house, as in the case of Coca-Cola Enterprises (see case study).

Best Location

To select the right sourcing location, organisations need to step beyond short-term location trends and make a decision based on robust evaluation criteria tailored to the specific requirements of the organisation and of the market in which it operates. The choice of sourcing location cannot be solely based on cost but must factor in environmental, political and operational considerations. See Figure 5 for the three factors relevant to the localization decision.



Figure 5 A closer look at the interplay of the three factors underlying the sourcing localization decision



Case Study: Coca-Cola Enterprises

Coca-Cola Enterprises achieves major cost savings through finance optimisation project

Company: Coca-Cola Enterprises (CCE) is the global marketer, producer and distributor of Coca-Cola products.

Business issue: CCE was not realising the full benefits of a centralised shared services centre. It set the goal of saving \$20m a year in transaction work costs through a finance optimisation project.

Solution: To identify what processes were mature enough for outsourcing, CCE went through a benchmarking exercise with the Hackett Group to see how the organisation's effectiveness and efficiency stacked up against the competition. The Hackett Group assessed the maturity and stability of each sub-process within CCE's order-to-cash, procure-to-pay, and record-to-report functions. While the company was doing pretty well on the scale of effectiveness, approaching world class, it had a way to go in terms of efficiency. The study identified that to become more efficient, CCE would need to conduct as much of its transaction processing as possible in a low cost country, either with a third party outsourcer or a captive shared services centre. Since CCE was not active in a low-cost country, the quickest road to achieve efficiencies with the least risk was to outsource as much of the transaction work as possible, and at the same time do more centralisation of the higher level transaction processing in its established shared services centre in Tampa, FL.

CCE and Capgemini implemented a solution throughout CCE's global business to create an efficient process in a cost-effective environment for order-to-cash services, purchase-to-pay accounting and record-to-report activities. Capgemini's solution is delivered from three offshore locations:

- Collections, deductions management and customer service are provided from Guatemala City, Guatemala
- Order-to-cash, record-to-report and purchase-to-pay processing are provided from Krakow, Poland
- Back office functions in master data, cash application, credit and various other activities are from Chennai, India

Benefits:

- Accelerate the transformation and help achieve near world-class performance by standardising and streamlining operations
- Deploy a global unified solution across all CCE business units to support the business that includes standardisation and process improvement while maintaining high standards of control and compliance to achieve a minimum savings target of 25 per cent
- Mitigate risks while transitioning the work and implementing new tools, systems and technologies

Pricing Methodologies

The 4 most common pricing mechanisms are:

- **Fixed Price:** The model provides for a contractually defined profile of charges for the term of the contract, which incorporates both the variable and fixed costs of service delivery. Typically, these fixed monthly charges decrease over the term of the contract due to committed productivity and efficiency improvements. Fixed pricing is based on the principle that baseline business volumes, and therefore the work effort and cost required to process them, remain constant throughout the contract term.
- **FTE Based Pricing:** Under this model, monthly charges are calculated by applying a rate card to the actual number of FTE used to deliver services.
- **Fixed Price with ARC/RRC mechanism:** This is a variant on the fixed price model that addresses the issue of changing business volumes using Additional Resource Charges (ARC) and Reduced Resource Credits (RRC) that reflect the variable cost of processing one more or less transaction. They are used to automatically adjust fixed price contracts to reflect moderate volume fluctuations throughout the contract term.
- **Transaction Pricing:** Under this model full transaction pricing units are defined in the contract for different volume scenarios. These transactional prices include both the variable costs of delivery and an allocation of fixed costs. Whereas the ARC/RRC mechanism described above is used to periodically adjust

a fixed charge within a defined volume band, full transactional pricing is calculated bottom up each month by multiplying the volume of transactions processed by the applicable transaction price for that volume band.

Depending on an organisation's attitude toward risk and reward, the pricing model can provide for a gain-share mechanism to incentivise both parties to collaborate to further reduce the costs of service or deliver other business benefits.

Transition

As soon as the right and most beneficial sourcing mode has been selected, an implementation scenario needs to be defined. Organisations should assess internal services, decide what they want to achieve, and determine how to get there. There are four implementation possibilities that might be considered:

- **Lift:** the process is handed over in the current condition to the BPO or SSC;
- **Shift and lift:** the process is first transformed before it is handed over;
- **Lift and shift:** the process is first handed over whereupon transformation commences;
- **Step by step:** programmed transformation.

In the transformational approach, while processes are lifted they are also studied and matched against best practice and adjusted to minimise variance. The combining of the number of actions into one timeframe means a much quicker leap to improvements. (See Figure 6) Also, the organisation and the vendor can

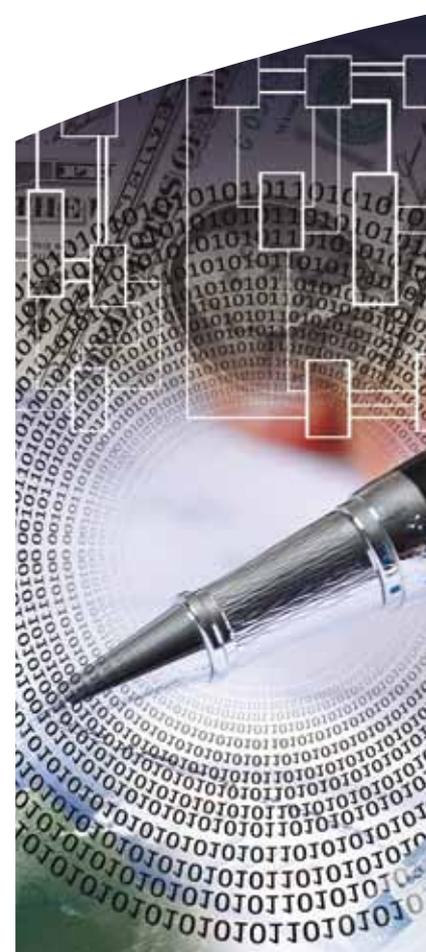
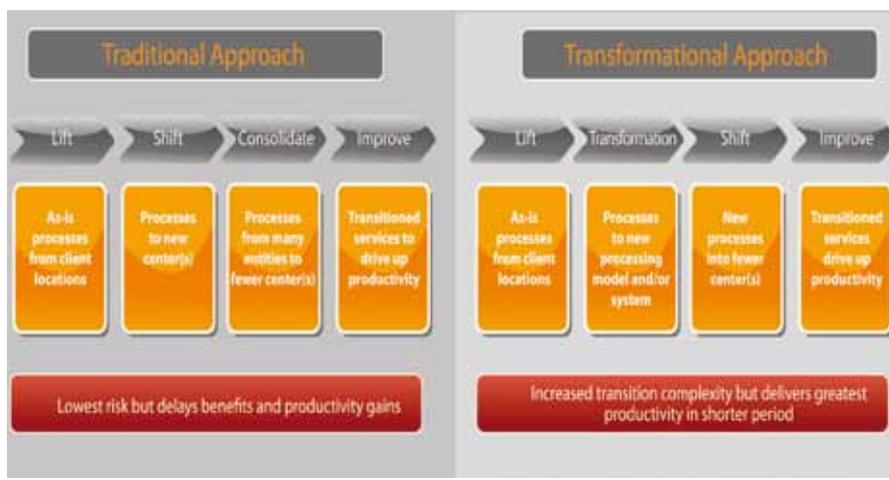


Figure 6 Shifting from traditional to transformational methodology for more rapid transitioning and productivity gains



agree that during the transition a defined level of standardization can be implemented right away during the transition. As this is done, the transition team can review and suggest an implementation roadmap for further improvements and recommend tools and methodology that could yield further improvements and value not only during the transition but also afterwards.

Especially when cost-savings are a primary driver, there's understandable pressure to get an offshoring move completed as quickly as possible. However, process mapping and documentation cannot capture every detail of a process and the gaps should be filled by sending the right number of staff for the right amount

of time to observe the processes in their native location. In addition, subject matter experts from the organisation should plan on spending a substantial amount of time in the offshore location to ensure that training is done accurately, and to be available for escalation during ramp-up and production cut over.³

Security

Assuring security and stability of processes is a key for F&A shared services. Confidentiality and risk to intellectual property are often cited as key reasons why organisations choose not to outsource to an external provider. BPO providers must ensure sufficient security measures to limit the risk of intellectual property theft or breaches of confidentiality.

Security procedures should address data security, physical security, and intellectual property protection. Regardless of the exact procedure implemented to assure security, it is important that international security standards are observed and that regular audits (both internal and external by the relevant institutions) are carried out. The industry benchmark is ISO/IEC 27001:2005. It specifies the requirements for establishing, implementing, operating, monitoring, reviewing, maintaining and improving a document Information Security Management System within the context of the organisation's overall business risks. It specifies requirements for the implementation of security controls customised to the needs of individual organisations or parts thereof. ISO/IEC 27001:2005 is designed to ensure the selection of adequate and proportionate security controls that protect information assets and given confidence to interested parties.

Additionally, an organisation that outsources processes to a third party

must be able to conduct regular security audits of the processes on the third party's premises.

Disaster Recovery and Back-up Plans

Moving work and resources to a new location means having to prepare for new dangers. Just looking at recent history, we've seen what natural calamities can do. For example, the devastating floods in the offshoring hot spot of the Philippines damaged infrastructure and placed serious obstacles in day-to-day operations of all businesses. Earlier in the year, the earthquake in Chile also reverberated not only in local operations but also in parent organisations of CSS and BPO centres.

Organisations also need to plan ahead for the possibility of an unplanned disruption in operations and demand of the SSC or the BPO to have a comprehensive business continuity and disaster recovery plan. Such procedures should also be aligned with industry standards, such as the Business Continuity Institute (BCI) "Good Practice Guidelines" and ISO 27002 "Code of Practice for Information Security Management".

Chapter 4: Contractual Issues & Governance Models

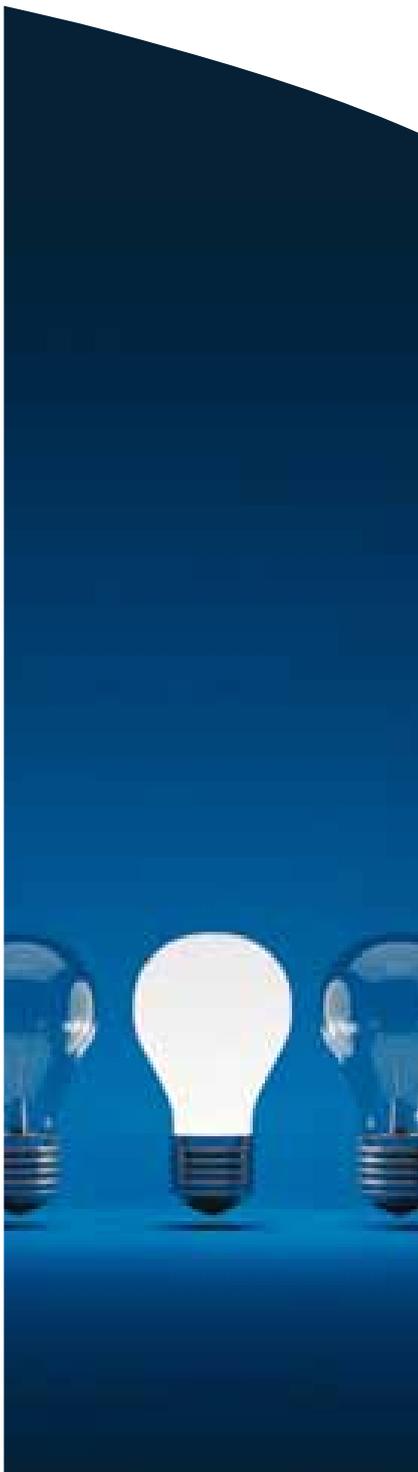
A good sourcing relationship is one built on a transparent, non-ambiguous and clearly written contract; a contract negotiated with the backing and full commitment of senior leadership including the commitment of the necessary finance management.¹¹ Even with continuous high-level leadership support, the amount of effort that goes into contract negotiation is often underestimated and the sticking points may not be what you would expect them to be.¹²

Yet, an organization needs to be as diligent as possible even at the expense of a delay in implementation. No matter how close the relationship between customer and supplier, or how confident an organization might be in the integrity and stability of a proposed new location, the due diligence must be seen as an indispensable part of any offshoring process.¹³

The customer and supplier organisations need to work together to finalise the plan incorporating all deliverables, dependencies and tasks and their allocation to the parties, including governance structure, appointment and training of delivery team, confirmation of all policies and regulatory requirements for the customer, the development and sign

off of KPIs, as well as a formal mechanism for issue resolution and escalation. The following key questions should be answered during the shaping of a contract:¹⁴

- Who will do what as far as processes are concerned?
- What will the service level from the supplier be?
- What will the customer have to do?
- Who will do the reporting?
- What happens if the customer wants to terminate the agreement?
- What happens if anything changes during the period of the contract?
- What happens if the service falls below the set KPIs?
- What happens if the service falls significantly below defined KPIs?
- What if there is significant and persistent failure against defined KPIs?
- What happens if the supplier causes loss to the customer?
- What happens if the contract is terminated?
- What happens with regard to transfer of undertaking of protection of employment rights?
- What happens if parties cannot agree?
- What rights does the supplier have to provide other services?
- What is the overall liability cap for the supplier?



The move to the FAO shared services framework will impact more than just the processes. Internal customers of finance will probably have to be much more rigorous in how they interact with the external customer. Third party suppliers may find themselves having to comply with new requirements. External customers may find that an outsourcer is the first line of cash collection as well as account maintenance. In addition, there will be a need for activities not needed earlier, such as contract management. Thus it is important that the outsourcing arrangement be clear on how processes are being standardised and centralised and what the organisational impact of any deviations will be¹⁵, also so that internal stakeholders are well aware of and can prepare for the impending impact of the change.

Exit Management

The cause and circumstances surrounding contract termination, beyond simple contract expiration, can vary significantly based upon specific circumstances, from a change in executive leadership or business strategy (as a result of a divestiture or introduction of a new business model), to problems with performance, desire to renegotiate, all the way to provider non-performance or loss of credibility.

Regardless of cause or category of termination, the outsourcing contract should provide an explicit and clear exit strategy, with an accurate transition plan covering the handover process.

An exit management clause in the contract should include, but not be limited to, all activities and costs related to ensuring the continuity of services, compliance with applicable guidelines, regulations and laws, and the transition plan and handover process itself. A significant focus will be on knowledge transfer and most of the time allocated in the hand-over will be to knowledge transfer.

Getting the Governance Model Right Relationship management is at the core of every successful outsourcing relationship. The governance structure should ideally be simple, with a single point of accountability from both the organisations:

- Interfaces between the two organisations should operate at various management levels. These need to be carefully defined so that personnel from both organisations have a clear view as to who is responsible for what and at what time.
- While formal structures are necessary, the development of personal relationships is key. As



Figure 7 Mirroring function governance model for sourcing¹⁷



staff at different levels have contact with one another, a mutual trust and understanding is built.

- Over 95% of issues should be resolved without recourse to the next management level or formal escalation procedures.
- The joint management team should be an open and honest partnership, with a positive culture of how to move forward, rather than apportionment of blame.
- The governance structure needs to evolve through time to reflect the transition from a major change programme to ongoing steady state service provision.

Figure 7¹⁶ shows a suggested model for governance of an outsourcing relationship, a structure that establishes the best platform for governance.

Offshoring is complicated enough without the added confusion of people not knowing specifically what they're going to be doing, where and when. Clear definition of roles and responsibilities should be thorough and top down. Key delivery team members should be engaged early in the project to ensure that service migration smoothly transfers into the delivery phase. The use of the future delivery team in the transition ensures that the knowledge captured and relationships built during transition can continue to be leveraged during the commencement of service delivery and thereafter. The outsourcer's senior team members should participate in governance committees during service migration and then in delivery, this will ensure continuity of knowledge and ownership of any issues that arise.

¹⁰Liddell, Jamie, "Top Ten Mistakes Made When Offshoring", Shared Services & Outsourcing Network, September 2010 (http://www.ssonetwork.com/topic_detail.aspx?id=6160&ekfrm=6&utm_source=ssonetwork.com&utm_content=text&utm_term=oi_email&mac=SSON_OI_listing_2010)

¹¹Scott, Peter, "Cutting costs in the finance function", From Outsourcing to Offshoring, October 2004, IACEW, p. 8.

¹²Scott, Peter, "Cutting costs in the finance function", From Outsourcing to Offshoring, October 2004, IACEW, p. 14.

¹³Liddell, Jamie, "Top Ten Mistakes Made When Offshoring", Shared Services & Outsourcing Network, September 2010 (http://www.ssonetwork.com/topic_detail.aspx?id=6160&ekfrm=6&utm_source=ssonetwork.com&utm_content=text&utm_term=oi_email&mac=SSON_OI_listing_2010)

¹⁴Scott, Peter, "Cutting costs in the finance function", From Outsourcing to Offshoring, October 2004, IACEW, p. 11.

¹⁵Scott, Peter, "Cutting costs in the finance function", From Outsourcing to Offshoring, October 2004, IACEW, p. 9.

¹⁶Gartner, Inc.: "BPO: What Does Good Look Like in 2010?", Cathy Tornbohm, Gartner Outsourcing & IT Services Summit in London, June 2009.

¹⁷Gartner, Inc.: "BPO: What Does Good Look Like in 2010?", Cathy Tornbohm, November 2009.

Chapter 5: Service Level Agreements and Quality Assurance

Service Level Agreements (SLAs) are the central instrument to agree upon the provision of services between customer and the supplier of shared services. Under it the customer commits to delivering the inputs necessary for the supplier to render the service and to supporting the measurement and evaluation of performance and continuous improvement efforts. On the other side, the supplier commits to the provision of the service, to the coordination of the measurement and evaluation of performance, continuous improvement, and to enhancing the services portfolio. To this end, the SLA must define:

- Scope of service
- Contact person
- KPIs and target values
- Measurement process
- Change request process
- Process for escalation
- Pricing and allocation.

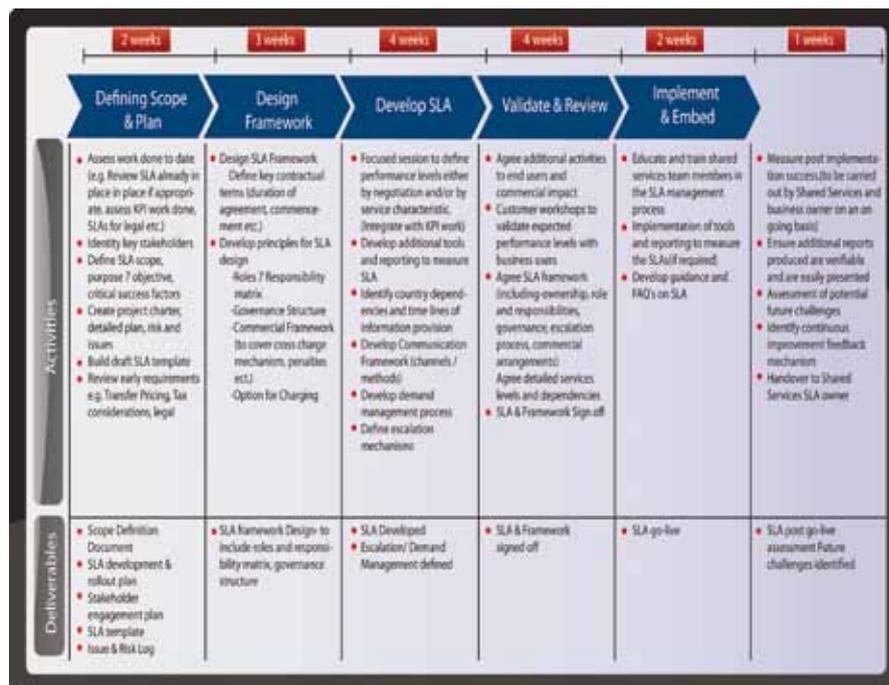
Figure 8 for suggests stages for building an SLA.

The SLA should be a flexible mechanism that allows for adjustments, according to any changes in the customer's business requirements. The contract should provide for a bi-annual or quarterly review of the established SLAs to prepare for changes and also for agreeing to all the implications that such changes could cause – together with the proper KPIs that will be used to monitor the SLA.

Procedures need to be defined in the SLA on the way the metrics are calculated ensuring those metrics can be compared across time periods, using the KPIs as benchmarks of quality targets defined in the SLA.



Figure 8 A sample staged approach to building an SLA framework



It is also important KPIs reflect activities over which the supplier has control, rather than setting global KPIs where the customer also has a major influence.

All KPIs benchmark efficiency, the most basic of measures focused on time and cost. KPIs can also measure effectiveness – accuracy and timeliness – of the delivered services. KPIs can relate to review process controls, i.e. policies and procedures established and implemented to help ensure effective response to risk. In addition, some suppliers offer to measure the value in business benefit terms derived from the provided service (see insert ‘Diamond KPIs’).

Service Quality Plan

Beyond the SLA, the Service Quality Plan (SQP) is one of the key documents that describe how the Quality Management System is implemented for a specific customer across multiple centres. The SQP features a description of the delivery process, standards, procedures and tools that are appropriate for the delivery. It also includes quality procedures, quality review plans, technical review plans and procedures to check deliverables. Moreover, it defines the financial management process, change management process, client satisfaction implementation plan, the monthly delivery review process as well as the problem/issue management process.

Diamond KPIs

Key Performance Indicators (KPIs) form the backbone of performance measurement under Service Level Agreements (SLA). Diamond KPIs aim to more the service efficiency (productivity) and show how they can help the customer achieve world-class operational performance

Effectiveness KPIs:

- Credit: % credit applications processed accurately
- Master Data: % changes processed accurately
- Collection: % overdue receivables
- Cash: % lines matched accurately
- Query: % queries over 10 days old
- Reporting: % reports issued on time

Control KPIs:

- Master Data: % detected segregation of duties exceptions
- Pre-process: % prevented duplications / incorrect scanning of documents
- Capture: % prevented incorrect / incomplete transfers from procurement system
- Authorize: % prevented duplicated / fraudulent invoices processed
- Query: % detected unauthorized requests
- Payment: % detected segregation of duties exceptions

Value KPIs:

- Credit: % bad-debt write-off
- Master Data: % compliance
- Collection: % Days Sales Outstanding (DSO)
- Cash: % cash unallocated
- Query: % change current to previous month queries to invoices ratio
- Reporting: % of ad-hoc reports

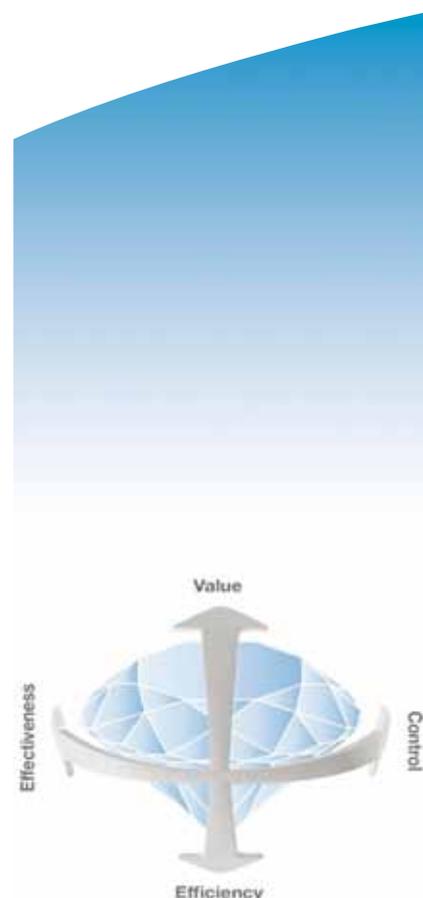
Quality Management System

Quality management and continuous improvement underpin the path to service delivery excellence, efficiency and process transformation. Quality assurance processes are used to identify, evaluate and monitor quality and performance so that clients are provided with the highest quality

deliverables and work products. A Quality Management System (QMS) should be implemented to assist the organization in identifying and monitoring quality of the provided services. QMS should be a thorough top-down mesh of well-documented and monitored policies and procedures, abided by all under clear and consistent line of accountability. The quality procedures should be documented, controlled and held in a central repository as should process maps and desktop procedures. QMS should be structured as a coherent management system using recognised quality standards, such as:

- Quality Planning – ISO 9001:2008
- Quality Governance – ISO 9001:2008
- Quality Assurance – Six Sigma/Lean, OTACE
- Quality Improvement – Six Sigma/Lean.

For FAO it is recommended that QMS be compliant with ISO 9001:2000/2008 as that certification has a high degree of focus on process documentation which is so important in accounting and finance. Secondly, the quality management principles defined in ISO 9000:2008 (Quality Management Systems, Fundamental and Vocabulary) and in ISO 9004:2000 (Quality Management System, Guidelines for Performance Improvements) emphasize the role that customers play in an organisation's quality management system. Specifically, customer requirements guide how services are provided and customer satisfaction evaluates service output.





Compliance

There are three aspects to compliance in delivery of services:

- Ensuring compliance of delivery centers with the local laws and regulations of the country in which the centres are located. Here the key control areas are human resources, corporate, financial and taxation requirements, data protection and privacy; telecommunication, software and other controlled components; occupational health and safety
- Ensuring compliance with the local laws and regulations of the country to which the services are being delivered to remotely. Here key control areas here are the organisation's policy and regulations, licensing and customer protection laws
- Ensuring compliance with any regulations and standards that the customer would like his processes to align with, including Sarbanes Oxley requirements and SAS 70. Though the audit of the supplier to assure compliance must be conducted by an external body, the customer can expect the supplier to have auditors and experts that know well how to align processes and internal procedures to ensure successful audit results.

External and Internal Audit

The supplier should support the organization with all statutory audits.

During the audit period the supplier and the organization must assure proper cooperation so that the right information and documentation is shared with the auditors. Interestingly, centralizing accounting functions offshore, for example in Poland or India, means that local branches of big audit firms can visit there to conduct external audits. This can significantly reduce the overall audit costs as the auditors do not have to visit many sites but just one.

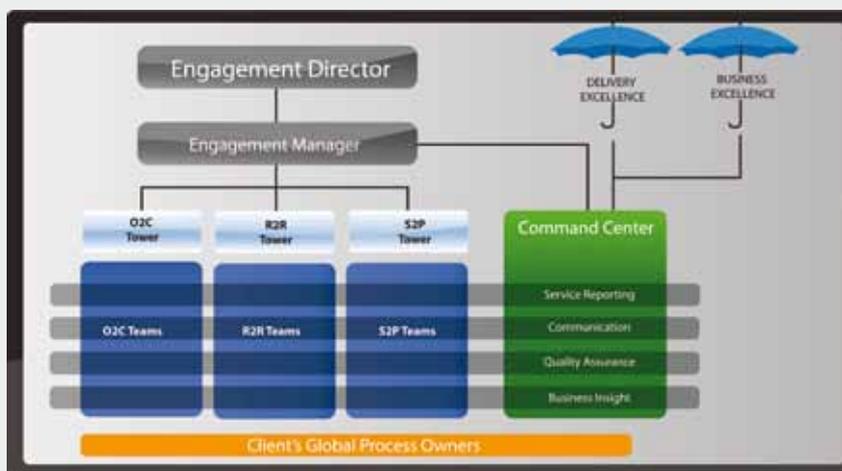
Benchmarking

In addition, service quality and how services are delivered can be benchmarked – the benchmarking exercise is often in the interests of both the customer and the supplier. The external benchmarking entity can provide an unbiased point of reference that constitutes an impetus for high performance and for a structured way of identifying underperformance and, if need be, investigating its causes.

Some suppliers, in an attempt to pave the way for greater streamlining of process management and reporting, and to ensure greater flow of information on process improvement and best practices, are also implementing other mechanisms to assure oversight, with the Command Center model as one example of such a practice (see insert 'Command Centre Concept').

Command Center Concept

Command Center is designed to support the supplier's management in delivering services to the customer. It is not involved in delivering services or in operational communications, rather it creates a platform for best practice and methodology sharing between processes and to building delivery excellence and business insight within the BPO, based on the supplier's accumulated experience and knowledge in service provision.



- **Service Reporting:** to provide organisation reporting as well as customer-specific SLAs, other operational metrics including trend analysis, and to serve as a central repository of contract documentation, reports and data.
- **Quality Assurance:** to coordinate continuous improvement initiatives within engagement; to motivate engagement staff to generate and implement improvement ideas; to prepare and analyse satisfaction surveys; and to perform quality check and internal control testing. This function also coordinates internal audits and cooperates with the quality management system.
- **Business Insight:** to provide data analysis expertise and tools (statistical analysis knowledge, data extraction, gathering and storing, skills in relevant technology); to conduct internal benchmarking and to analyse results against industry trends to make sure they are reflected in service reporting and SLAs.
- **Communication:** to develop appropriate communication channels/tools as per agreed frequency and content between the customer and the supplier.



Chapter 6: People Management



Clearly, though a given process is sourced out or pooled in a central location, some scope of oversight over the process must be retained, depending on the scope and level of processes outsourced. See Figure 9 for a schematic overview of how process functions should be split between shared services and the retained organisation.

The functional roles of a retained organisation will typically include:

- Strategy;
- Contract management;
- Process Improvement;
- Retained accounting;
- F&A Policy Management;
- Vendor relations;
- Administration.

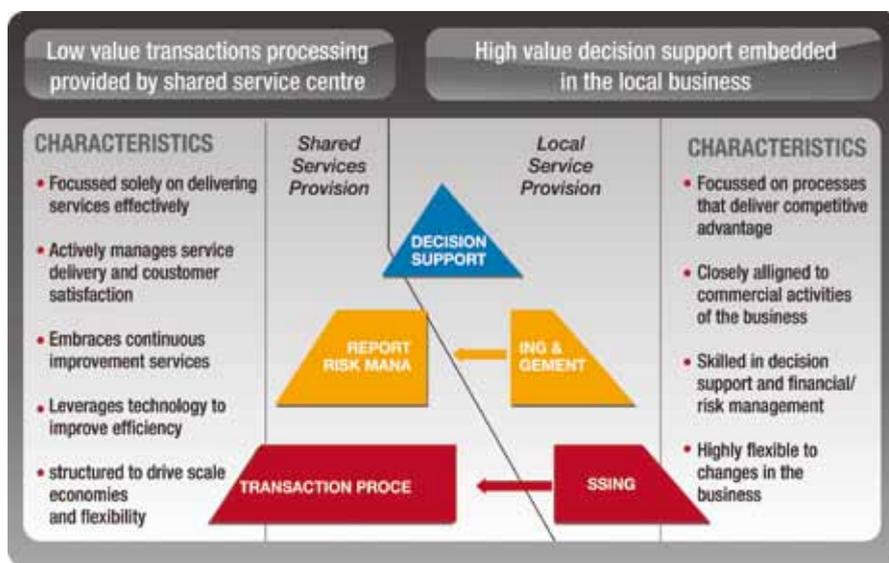
Retained personnel

The strategic decision to pool F&A functions together and source either in-house or from a third party, has serious repercussions for the organization's workforce. These

repercussions are not only reflected in headcount, but if due care is not exercised, can also reverberate in overall morale, productivity and attrition.

It is critical that once the 'secret is out' management moves to comprehensively inform its staff of the impending change, what the reasons for it are and the resulting business benefits, and what provisions have been made for them. The organisation, as an employer, should provide new training and work to redefine roles of the employees that remain as key bridges between the organization and the shared services. The retained staff must be open to changing its mind set, moving from the supplier's seat to the customer's seat, to becoming a true business partner for shared services, whether captive or outsourced.

Figure 9 The split in scope of process functions between shared services and the retained organisation means a need for different competencies and skill sets in the two organisations.



This openness to changes in mind set can only happen in an environment that fosters trust and openness. It is only in that setting that the retained staff will effectively add value. To this end, it is best to have a structured and comprehensive career development programme, that provides for professional development that accommodates changes in roles as the organization shifts to centralizing some of its business functions, a path which clearly defines what the added value is and how the staff's efforts will be assessed and measured.

Given that the retained staff will have to work closely with the shared services staff, and usually also exercise oversight over its performance, it is important that the retained staff understands the cultural specificity of shared services personnel and what impact that cultural specificity might have on day-to-day contacts and work relations. To this end, the organization should also work together with the supplier to ensure that its staff has a clear understanding of the customer's organizational culture.

Beyond an understanding of cultural differences and theoretical knowledge, both staff should be provided with access to practical tools and motivators to bridge the gap of distance, culture, scope of responsibilities, such as regular conference calls with webcams, joint projects, and shared KPIs,

Shared Services Personnel

As an organisation entrusts its processes into the hands of a BPO, the supplier's staff becomes part of its organisation. Thus, it is important to ensure that the customer has some extent of control over staffing decisions the outsourcer makes that have an impact on the customer's processes. It is advisable for people involved in the transition to continue to transfer the knowledge they gather onto delivery teams, to ensure a smooth hand over of processes. Also, all changes in key personnel of the shared services should be agreed upon

with the customer. A replacement process should be jointly agreed upon, and the customer should know in advance about the planned changes and the proposed replacements.

Interestingly, attrition in BPO has declined a little as a major cause for dissatisfaction, partly because the global economic slowdown appears to have made employees a little more cautious about job hopping, and partly as providers have looked to put better practices in place to mitigate attrition, such as working on better career paths, offering opportunities to work in various locations and working closer with clients to find solutions such as work placements at the client, better transportation solutions and even starting to introduce webcams.¹⁸

Chapter 7: Business Transformation through Continuous Improvement to World Class Performance

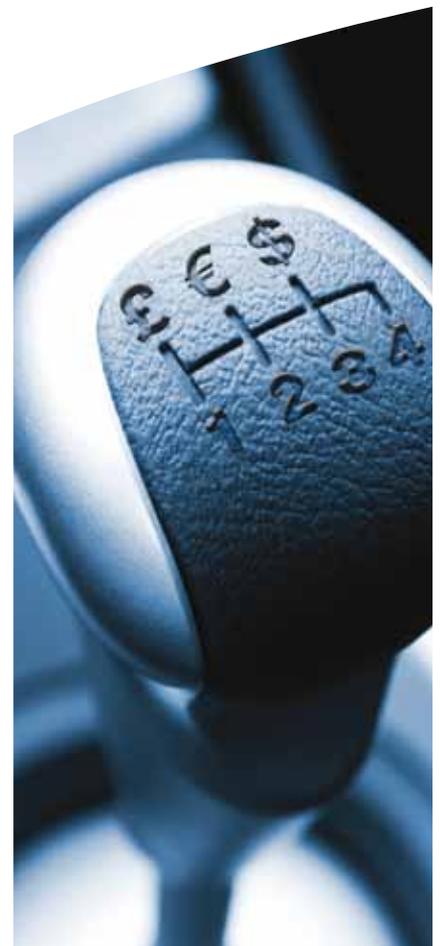
Though it would seem that the drive to continuous improvement is a given, there is a common concern that the supplier will gain the benefit of process improvements and some customers prefer to restructure their F&A processes prior to ceding their provision to a third party as to ensure they benefit from process pooling. Yet, the potential benefits of in-house reorganization should be weighed against the potential costs and loss of opportunity to implement more profound improvements with the assistance of an able supplier. If the organization is able to be sufficiently specific about the improvements and their impact it may be able to negotiate them into the service charge. The benefit of this is that the onus would be on the supplier to increase the charge if there is no improvement.¹⁹

Continuous improvement involves assessment and benchmarking. The

traditional continuous improvement methodologies are Lean, Six Sigma, Kaizen. The Lean methodology is focused on eliminating waste and increasing value, by seeking to remove non-value adding steps in a particular process. Six Sigma is a rigorous and disciplined methodology that uses data and statistical analysis to measure and improve a company's operational performance by identifying and eliminating defects. The Kaizen method could be called a "grass roots" approach to continuous improvement as improvement ideas identified by employees are supported for on-the-spot implementation by the very individuals who invent them.

The Route to World Class Performance

Organisations centralise F&A processes and realign the organization to the new model in hope of improvement – greater efficiency and effectiveness as well as greater





Case studies: Lean Six Sigma in Action

Unearned Discounts

Business Issue:

- Unearned discounts were observed on a monthly basis, with an average of EUR 30,000 per month.
- Significant time was spent on recovery and the Account Receivable (AR) team was able to recuperate only some part of the unearned discounts.
- Customer loss about EUR 300,000 a year.

Solution:

- Six Sigma team was established to investigate the process of undue discounts taken by the organisation's customers. It found eight root causes for the error and implemented clearer procedure for the calculation of the grace period and discounts not taken on credit note.

Benefits:

- Better cooperation of AR team with credit department (monthly review of customer accounts)
- Clear procedure for grace days and discounts not taken on the credit note
- Less time needed for reviewing unearned discounts, down to less than 5% of AR team's time
- Money savings, non recovered unearned discounts down to close to zero: the value of unearned discounts over 90 days decreased from over €00,000 in November 2008 to about €15,000 in April 2009.

Stock accounting and reconciliation

Business Issue:

- A non-centralized process of monthly regional stock reconciliations
- Enormous stock wastages due to the lack of a structured system for analyzing non-selling stocks and no efficient process for measuring, analysing and reporting information
- Process of Loss of Sales Conversions of stocks is performed manually.

Solution:

- Process centralized into a single centre in India to avoid regional reconciliation
- Daily process of stock reconciliations, and in transit monitoring implemented
- Automation of stock conversion requests receipt through SAP introduced
- Information analysis of non-moving and slow-moving stocks to identify reasons for the same and suggest remedial actions.

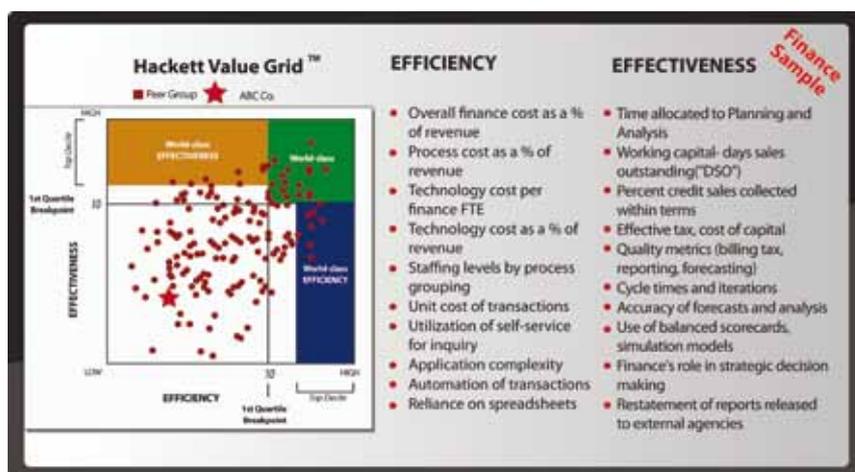
Benefits:

- Redistribution of stocks and improved stock availability: the more efficient process of stock conversions enabled stocks to be available for sale in 4 hours as compared to 2 days before the changes
- Identification of alternative selling points and connecting of stocks appropriately resulted in less waste
- Overall, a 60% reduction in headcount (from 25 FTEs, down to 11 FTEs) was achieved through the process re-design.

business core focus on strategy and outcomes. As every organisation moves towards a leaner structure and highly effective, slim support functions, competition heightens and only those that excel in the quest

succeed. The Hackett Group defines world class as companies that sit in top quartile in both efficiency and effectiveness²⁰ (see Figure 10 for the Hackett Value Grid).

Figure 10 Hackett Value Grid and Axes²¹



World-class performers achieve excellence by focusing on complexity reduction and operating excellence. Though, according to Hackett's research, the rate of improvement by world class has slowed it still continues to outpace the peer companies: the annualized rate of financial cost improvement for world class has slowed from 7.0% to 6.1%, yet concurrently the rate posted by the peer group has inched down from 5.2% to 4.1%.²² Though world class companies can be found in every industry, they do have a number of common characteristics:

Business enablement

- Top performers have 11% higher EBITDA
- IT BVM top performers delivery 63% higher net profits than peers
- More than 2X higher annual savings from sourcing

Operational excellence

- 58% greater cash flow forecasting accuracy
- 46% fewer billing errors
- 25% higher IT help-desk first contact resolutions

Complexity reduction

- 49% fewer applications per 1,000 IT end users
- 50% fewer suppliers per \$B spend.²³

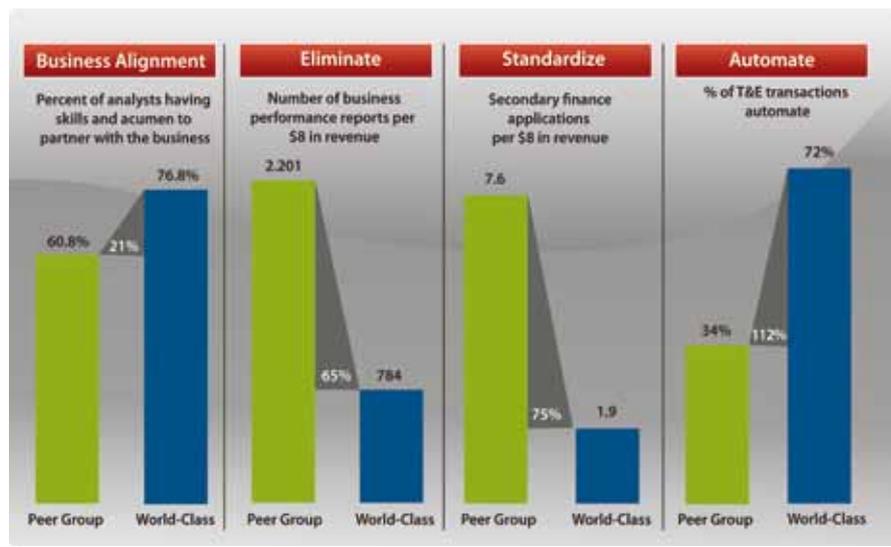
World class in finance

World class is achieved through continuous business alignment, elimination of process redundancies, standardization of processes, and automation (See Figure 11). In finance, world class means significantly higher cost effectiveness in all process categories:

- 47% less expensive and 52% less staff across all finance areas



Figure 11 Journey to world class in finance



- 30% greater number of reports generated from a central data repository
- produce 43% fewer billing/payment errors to deliver higher value to the business:
- 58% greater cash flow forecasting accuracy
- 5% fewer days required to close the books
- 89% higher prevalence of documented strategic plan.²⁴

Top performers consciously align their F&A service delivery strategy to corporate strategy while making prudent execution capability investments. In addition, there's a very clear connection between

complexity reduction and world-class performance.²⁵ Any organization that would like to progress to world class needs to:²⁶

- Identify the strategies and practices employed by leaders;
- Validate current initiatives;
- Determine what's possible (world class performance metrics);
- Support process implementation;
- Adopt continuous best practice.

See Figures 11 and 12 for how these steps can be translated into defined improvements, and how these steps reflect what kind of shared services option an organization should favor.²⁷



Global Process Model for rapid finance transformation and transition

Business Issue:

The finance and accounting transaction processing of Stora Enso, the Helsinki-based global pulp and paper manufacturer, was done in 18 countries leading to a lack of transparency and redundancies in the process. Stora Enso wanted to streamline transaction processing and reduce its costs by implementing right solution quickly.

Solution:

GPM is a process map that defines best process flow for each F&A process and sub-process based on proprietary BPO long-term experience and FAO benchmarking done by The Hackett Group. The best process flow is defined as follows:

- Current process is mapped
 - Current process is analysed
 - Current process is matched against GPM process flow
 - Gaps between the two are identified
 - An improvement is developed
 - The benefits of the improvement are assessed
 - A high level GPM roadmap of moving from current process to GPM process is prepared.
- Not only does GPM assure optimal F&A process mapping, the roadmap to the improvements can be created very quickly during the transition and quick wins can also be implemented during the transition.

For Stora Enso, the additional benefit was that any changes that needed to be implemented could be performed only once centrally with significant benefit of scale, since the processes did not need to be replicated in multiple transaction systems or in multiple locations.

GPM benefits:

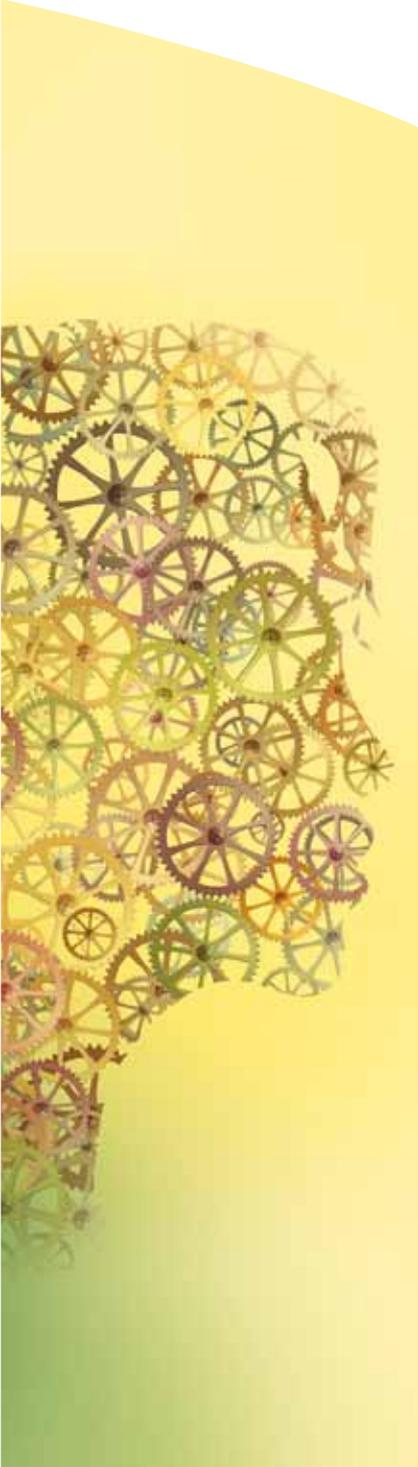
- Elimination of exceptions and non-value-adding tasks
- Productivity savings via better efficiency and quality
- Transparency of processes – easy to compare/benchmark
- Better workload management
- Improved back-up structure
- Lower dependence on specific knowledge kept by very few employees
- Additional quality controls – easiness of implementation
- Elimination of errors
- Better process specialization
- Better opportunities for improvements and investments
- One common process model aligned with the process based structure.

GPM benefits for Stora Enso included:

- Speed to value transition: over 250 FTEs in live process in less than 12 months
- Process improvements from Day 1 of delivery
- Standard processes across all countries with minor legal exceptions
- Efficiency increased by 30%, also increases in effectiveness and value.



Chapter 8: Business Transformation through Automation, Innovation and New Technology



The F&A shared services context is one in which the benefits of automation and standardisation can be well realised. For years now, ERP (Enterprise Resource Planning), CRM (Customer Relationship Management) tools and other integrated and standardised system platforms have been used to drive up efficiencies and productivity and drive down complexities and costs. Organisations that have switched to the pooling of F&A functions have seen the benefits of these integrated solutions on the workflow of standard processes. Customers have also become more open to standardised solutions, and are willing to make lower customisation demands in order to get lower cost services.²⁸

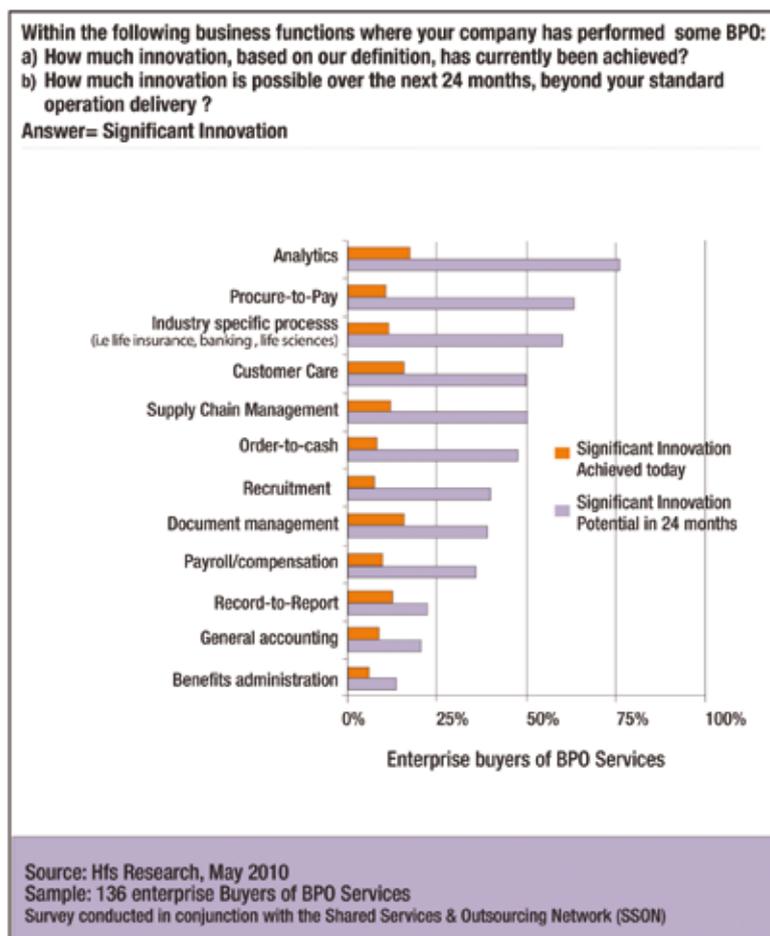
Yet, while standardisation and automation are driving down costs, platforms, proprietary process tools, and software innovations are now becoming increasingly important for vendors not only as differentiators, but also as a way of taking end-to-end control of the processes.²⁹ This transformation option can be expensive and take a long time

to implement, but the argument is that the vendor can share best practices developed in work for other customers to transform their processes, often going as far as moving the services and functions to a standard platform that is the fruit of its best practices. Additionally the vendor offers to innovate to find more efficient ways of delivery of processes that have been handed over.

Innovation

Innovation is now the critical ingredient for most buyers of BPO services. Most buyers are initially delighted when the supplier trims a third of their costs of one process and a quarter off another, but once those costs disappear from the balance sheet, they quickly look at new initiatives to help them attain new thresholds of productivity or revenue growth. In May 2010 SfH Research conducted a survey entitled “Are you Achieving Innovation in BPO?” in conjunction with the Shared Services and Outsourcing Network (SSON) of senior finance and operations executives. Analysis of the study

Figure 12 Hfs respondents express their opinion on the innovation potential of individual business functions



results revealed that achieving innovation in BPO engagements is either critically important or quite important for 94% of the buyers; no respondent said it was not important. To add, an increasing majority of buyers are aware they can achieve innovation, and know the potential is there to do exactly that. They also realize certain processes are extremely ripe for an injection of innovation. Though organisations want innovation as they recognise the significant value

it can bring to their businesses, they also see that some processes have potential to foster innovation while others, frankly, only offer a means to an end.³⁰ (See Figure 12).

Service Integration and Beyond

Beyond the taking over an end-to-end process, is the integration of a process and the IT that it requires into one contract. The challenge for BPO vendors is to ensure that the bundling leads to efficiencies and enables the





vendors to deliver on the business outcomes promise. This is where BPO vendors are looking at new options in service delivery, such as SaaS and cloud computing, and these new solutions are also leading to a shift in pricing methodologies, towards ones focused on transactions and per-use pricing. Though data governance, privacy and security still comprise barriers, experts are seeing these more as theoretical arguments and not anything proven in practice.^{31 32}

Software as a Service (SaaS)

Even within a single company, IT support has to manage an estate of thousands of PCs, all with an operating system that needs to be managed and upgraded, and all with office automation tools. All those tools need to be kept up-to-date with patches and bug fixes, in a way that does not cause a problem to the end user. Meanwhile, most users just want to get on with their work without having to maintain their desk PC. This is why many are exploring the idea of Software as a Service. And there are two good reasons why SaaS has become a highly viable option: web browsers are a lot better than a few years back so applications can exist within a browser hassle-free; and stable broadband access means it is a lot easier to rely on online applications. There are still questions over data security, the practicality of having a 'always online' system, and the fact that cloud-based SaaS systems have to be more standardised, but this is clearly an idea that is in the mainstream.

The attraction for SaaS lies in the ability to purchase transaction-based services without having to own the asset, while at the same time maintaining a competitive edge in terms of performance. The challenge that the customers face today is to persuade the suppliers to develop such solutions by taking over their current legacy (people and technology) and turning it into a service (offered via a SaaS model, for instance) that is highly tailored to them.

Cloud Computing

Cloud essentially involves pay-as-you-need for infrastructure for applications and storage from a third party. Much like SaaS, the advantages are similar for cloud in regards to cost savings, and include economy of scale, continuous improvement, reduced upfront infrastructure investment, and more rapid deployment. Improved efficiency points towards reducing the workload of the internal IT staff in areas of hardware including maintenance, configuration, and interoperability. In-house personnel are freed up to focus on more critical needs and initiatives. The agility offered by the cloud enables organisations to rapidly ramp up or down as needed within a shortened time frame at reduced cost. Many suppliers, including specialised firms, have developed robust tools to bridge the gap between the organisation and the cloud. Many of these are offered as a platform as a service (PaaS).

Brave New World of Communications

The rapid spread of enterprise social networks is still a big puzzle for most senior managers. As they try to set corporate policies for social networks the challenge is how to accommodate the constantly shifting event-driven environment in which more and more enterprises and people are finding themselves working with static statements of knowledge that refer to previous experiences. These previous experiences may not be true for the current event. Even if they have some relevance, trying to make a direct reapplication of previous knowledge could be difficult as the context is different.

Now consider what Twitter (social network) might bring to this. First, our friends (defined community) are offering continual insights to their activities and thus we have the benefit of 'knowing' more about the whole current situation in real time. This means we never feel left out of knowing about what else is important to other members of our community. This would ensure that we are optimising any activity in light of being aware of the current situation comprehensively.

The power of 'real time' sense and response that harnesses many individuals continuously creates expertise. This is opposed to periodically harvested and indexed knowledge. Collectively they provide an optimised 'intelligent' decision – which is the role for social networks. It does not replace existing knowledge or processes. It merely provides a constant dynamic environment in which people can take the first level of action that should then direct the activity into the appropriate enterprise process.

¹⁸Gartner, Inc.: "Magic Quadrant for Comprehensive Finance and Accounting BPO", Cathy Tornbohm, 17 December 2009.

¹⁹Scott, Peter, "Cutting costs in the finance function", From Outsourcing to Offshoring, October 2004, IACEW, p. 13.

²⁰The Hackett Group: "World-Class Finance & Role of BPO", 15 February 2007, slide 10.

²¹The Hackett Group: "World-Class Finance & Role of BPO", 15 February 2007, slide 10.

²²The Hackett Group: "World-Class Finance & Role of BPO", 15 February 2007, slide 12.

²³The Hackett Group: "Survival of the Fittest: How World-Class Companies Weather a Recession and Position for Recovery and Growth," 5th Annual European Best Practice Conference, October 2009, slide 5.

²⁴The Hackett Group: "Survival of the Fittest: How World-Class Companies Weather a Recession and Position for Recovery and Growth," 5th Annual European Best Practice Conference, October 2009, slide 21.

²⁵Bangemann, Tom, "Globalization & Economic Crisis: The Status in Shared Services and Trends for the Near and Long-Term Future, The Hackett Group, 21 January 2009, p. 7.

²⁶Bangemann, Tom, "Globalization & Economic Crisis: The Status in Shared Services and Trends for the Near and Long-Term Future, The Hackett Group, 21 January 2009, p. 3.

²⁷The Hackett Group: "World-Class Finance & Role of BPO", 15 February 2007, slide 37.



Chapter 9: Sum Up – Transforming FAO

There is nothing wrong with the principle of moving transactional work into shared services in low cost locations to leverage wage arbitrage, but there is an almost equal opportunity organisations should look to glean from on the productivity side.³³

Tom Bangermann, VP Transformation at The Hackett Group, provides a worthwhile perspective for BPO customers and suppliers alike: “If you look at average levels of automation, for example in AP and AR, then automation levels today are between 20 and 40 percent for those processes. That means that 60 to 80 percent remains manual. In world-class companies you would see

double these automation ratios. So you can easily calculate the difference in productivity. I know that for companies that are at 20 percent automation, 80 percent will sound unreal — and they won’t believe the numbers. But of course that is the point. The ratio of world-class companies to others is 10 percent.

The fact that these 10 percent manage to achieve the levels they are at gives the rest something to aim for. Most of them weren’t world class ten years ago and it’s been a process to get there — but it’s possible.”³⁴



Are you ready to take on that transformational challenge as an organization? If so, it is critical to look for a supplier capable of reevaluating the design of a process to proactively come up with process improvements and best practice ideas. A good sourcing partner will also be one able and willing to move up the value chain in terms of scope, beyond just transactional activities. You must find a vendor that you can trust to work successfully in your organizational environment to deliver from a social and legislative setting that you might not be familiar with. The vendor needs sufficient support and hands-on management involvement to enable it to take on processes and activities smoothly and successfully. And, most importantly, the vendor needs sufficient trust to nurture a partnership in which both parties feel the weight of responsibility for the success of the outsourcing relationship.

²⁸Ovum: "The Future of BPO Delivery", Patrick O'Brien, 8 July 2010.

²⁹Ovum: "The Future of BPO Delivery", Patrick O'Brien, 8 July 2010.

³⁰Fersht, Phil, HfS Research Report: "Desperately Seeking Innovation in Business Process Outsourcing: Enterprises Speak Out", 2010.

³¹Ovum: "The Future of BPO Delivery", Patrick O'Brien, 8 July 2010.

³²Fersht, Phil, HfS Research Report: "Desperately Seeking Innovation in Business Process Outsourcing: Enterprises Speak Out", 2010.

³³"Q&A Interview with Tom Bangeman", Shared Services & Outsourcing Network, July 2010, p. 2.

³⁴"Q&A Interview with Tom Bangeman", Shared Services & Outsourcing Network, July 2010, p. 2.



Glossary

Bestshoring/rightshoring	Bestshoring is the process of identifying the best location to move manufacturing, IT or business processes for a company. The decision is based on quantifiable criteria which are used to take subjective and political input out of the decision cycle
BPO	Business Process Outsourcer (ing): Term used to identify an organisation whose primary function is to handle business processing as a contracted outsourced partner
CSS	Captive Shared Services; buyer owned and maintained shared services.
FAO	Finance & Accounting (F&A) Outsourcing
Insourcing	The opposite of outsourcing. The act of bringing inside an organization a function that has been performed outside the organization (outsourced). Insourcing (or contracting in) is also often defined as the delegation of operations or jobs from production within a business to an internal (but 'stand-alone') entity that specializes in that operation
Multi-sourcing	A strategy that treats a given function -- such as IT -- as a portfolio of activities, some of which should be outsourced and others of which should be performed by internal staff. This approach moves away from the idea that all of a function should be viewed as a commodity, easily handed over to a service provider. Also known as "selective sourcing".

Nearshoring

Nearshoring (also known as “nearshore outsourcing”) means sourcing service activities to a foreign, lower-wage country that is relatively close in distance.

Offshore outsourcing

The practice of hiring an external organization to perform some business functions in a country other than the one where the products or services are actually developed or manufactured.

Offshoring

Offshoring describes the relocation by a company of a business process from one country to another - typically an operational process or supporting processes.

Outsourcing

Outsourcing involves an organization passing the provision of a service or the execution of a task previously undertaken in-house to a third party to perform on its behalf.

Shared services

Shared Services refers to the provision of a service by one part of an organization or group where that service had previously been found in more than one part of the organization or group.

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This report was first published as a special report by the Finance and Management Faculty of the Institute of Chartered Accountants in England and Wales (ICAEW). The Finance and Management Faculty is a centre of knowledge and expertise for chartered accountants and other professionals in business. www.icaew.com/fmjoin



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