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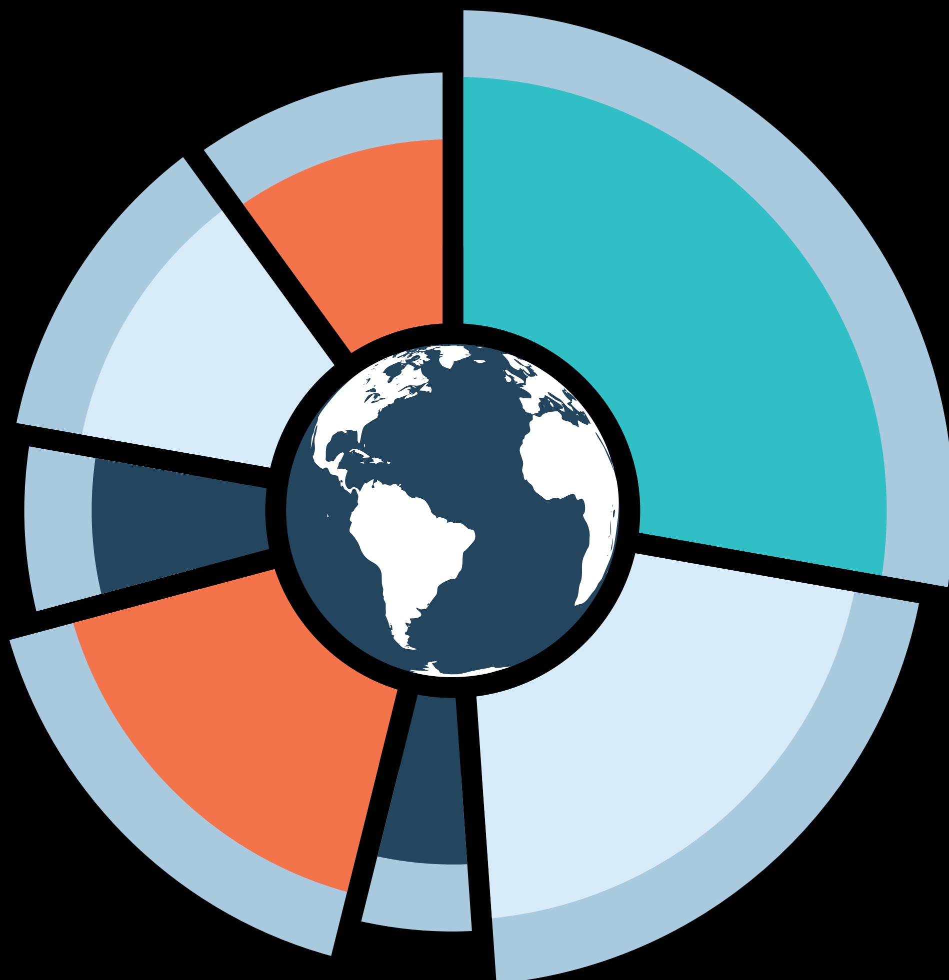

When input trumps throughput: Optimizing service delivery models for knowledge-based finance functions

Why the rewards can be well worth the risks

As finance and accounting organizations continue to be challenged to provide more value at a reduced cost, evaluation of service delivery models is again top-of-mind. Many have already pulled traditional levers on shared services and outsourcing related to accounting transaction processing (e.g., accounts payable and receivable) and some financial planning and analysis. Finance and accounting organizations are now looking at ways they can optimize resource deployment in the delivery of traditional knowledge-based functions including controllership, tax, treasury, internal audit and compliance. Although the value drivers remain the same, optimization of these types of highly skilled functions offers qualitative and quantitative benefits, yet also introduces unique risks that need to be managed if this next round of service delivery model transformation is to be deemed successful.

Alternative Versus Traditional Service Delivery Models

A service delivery model is the method through which organizations deliver functional and business-enabling processes to support the overall business strategy. For knowledge-based functions, the traditional model involves delivering services from an in-house unit that is proximate to corporate and business leadership. In contrast, an alternative service delivery model involves delivering an effective combination of shared services, outsourcing, automation and off-shoring that works in conjunction with the retained corporate organization.

Increased flexibility, scalability, and cost reduction, as well as greater standardization and control, are the primary benefits of adopting an alternative service delivery model. Through common processes and systems, the finance and accounting organization can additionally benefit from increased data transparency and consistency, which supports decision-making and enhances risk intelligence.

The case for change

Just under 75 percent of CFOs queried in the 2015 Q4 Deloitte CFO SignalsTM Survey, where 112 CFOs responded during the two-week period ending November 20, 2015, indicated that increasing efficiency by reducing direct and indirect costs is a top priority. Additionally, more than 80 percent noted they intend to undertake substantial productivity/efficiency initiatives to increase their organizations' profitability. To achieve these improvements, nearly half of those who plan to undertake efficiency initiatives noted they will work to lower and control labor costs. Macro-economic conditions are compounding the pressure upon these organizations to deliver greater value with fewer resources. Increasing competition, global economic uncertainty, and sustained Mergers & Acquisition (M&A) activity, along with the rapid pace of change that accompanies these factors, are all prompting CFOs to rethink the traditional role of the finance organization, the value it provides, and most importantly, how that value can be enhanced through innovation.

We've observed that the next wave of innovation and value creation involves rethinking how knowledge-based functions are delivered. For some time, alternative service delivery models, such as shared services, global business services (GBS), and outsourcing have been widely embraced for processing routine accounting transactions, such as general accounting, accounts payable, accounts receivable, and some financial planning and analysis. Typically, high-volume transactional processes were thought to be best suited for alternative delivery models since they offered the "biggest bang for the buck" in terms of cost savings through labor arbitrage and efficiency improvements through process standardization. However, finance organizations are now considering the viability of delivering knowledge-based functions, including controllership, tax, treasury, internal audit and compliance, through alternative models in order to achieve similar benefits.

The leading edge

Eighty-one percent of respondents in Deloitte's 2015 Global Shared Services Survey—which had representation from more than 300 organizations around the globe and provides data for more than 1,000 shared services centers globally—expect to increase the number of knowledge-based processes delivered by their shared services centers (SSCs) over the next three to five years. Most believe this work will be handled through their own SSCs, with only 27 percent expecting to transfer more knowledge-based processes to outsourced providers.

Why is this shift occurring now? We believe it is happening for two reasons. First, it is a natural next step since shared services and GBS organizations are under pressure to contribute value back to the business and they've succeeded in doing that with transactional functions. Second, knowledge-based processes have started to become more consistent and more standardized. For some time, each knowledge-based activity was thought to be unique. Recently, finance and accounting organizations have started to categorize some of these activities and acknowledge consistencies among them. In short, knowledge-based processes are more adaptable and more suitable for delivery through shared services and outsourcing than they were even three to five years ago.

As more and more companies stand on the leading edge of moving knowledge-based functions to alternative delivery models, they must understand that this transition is a delicate undertaking and it requires a deliberate approach. The risks and rewards of the shift must be weighed on a different scale because the finance organization handles sensitive enterprise data that is required to meet stringent reporting requirements and to support complicated business decisions. While the benefits of getting the transition right can be substantial, so can the consequences of getting it wrong. Proper due diligence before making a change to an alternative delivery model requires examining both sides of the risks/rewards coin.

Heads: The rewards

Based on their experience in delivering transaction-based functions through shared services and GBS models, companies are familiar with the cost savings and efficiency improvements that can potentially be achieved. These traditional benefits also apply to knowledge-based functions, but in addition, companies can also realize:

- Better quality and less risk due to increased specialization: Companies can benefit from scaling complex, knowledge-based processes within a centralized organization, such as a center of excellence, as opposed to developing talent locally. Additionally, organizations can consider outsourcing processes to specialized service providers who have deep knowledge of technical areas such as tax, internal audit, international payroll, regulatory compliance, etc. On the risk side, according to the 2015 Annual State of the Shared Services Industry Report published by the Shared Services and Outsourcing Network (SSON), 75 percent of respondents believe they have mitigated risk through business process outsourcing; however, respondents emphasized the importance of proper governance in producing this outcome.
- Greater agility: Alternative models allow functional design to meld with the needs of the business as they expand and contract.
- Access to state-of-the-art technology: More and more advanced technology tools are coming to market (e.g., close, reconciliation, control monitoring, forecasting, robotics and automation), but many companies struggle to keep pace, and are slow to integrate them with their legacy systems. Specialized service providers are often more invested in staying current, thus giving finance organizations a way to take advantage of the latest capabilities, without deploying the technologies themselves.

Tails: The consequences

When an organization attempts to change its service delivery model for knowledge-based processes, the risks can be high. Cutover failure could significantly impact company assets and erode shareholder value. Some consequences of "getting it wrong" can include:

- Regulatory missteps: Many knowledge-based functions focus on activities related to financial reporting, such as financials preparation, tax filing, and other regulated and required undertakings. A difficult transition could cause errors or delays in these vital activities, triggering regulatory scrutiny and penalties.
- Lack of flexibility: Many knowledge-based functions are over-staffed in order to allow for close proximity to leaders, or they build in extra capacity to ensure 100 percent on-time service during peak times. However, this necessary flexibility can look like unnecessary inefficiency to the uninitiated. A shift in service delivery that cuts too deep or does not contemplate service delivery under abnormal conditions could produce an inflexible model that can't support the needs of the organization.
- Loss of critical talent: As in M&A and other major work modifications, organizations must find a way to retain critical talent to support the service delivery transformation, but this challenge is magnified several fold during knowledge-based change. That's because sometimes only one, two or three people are critical to a certain area. This elevates the stakes in retaining them since replacements aren't readily available. If leaders don't focus on the human-capital side of a knowledge-based transition, it can fail as a result of just one or two people exiting, leaving the company without a current state to which to return.

Five dimensions of optimization

If knowledge-based functions are the wave of the future for service delivery transformation but the consequences are so high, how can organizations effectively manage the risks? Based on our experience, there are five dimensions that finance organizations should consider when attempting to optimize their service delivery models for any type of function. These dimensions become even more important in the case of knowledge-based functions, since they are more complex, generally requiring new perspectives, greater attention to detail, and extra planning. Here's what we mean.

1

Driving the transformation—Understanding when it is beneficial and appropriate to transform a service delivery model is one of the hardest things to determine, particularly concerning knowledge-based functions. Traditionally, finance leaders would have considered static, steady state processes that didn't require a great deal of focus and that conformed to traditional approaches to moving work. However, with knowledge-based functions, the selection criteria become more complex. While cost can still be a motivation for service delivery transformation, other drivers often come into play, such as ineffective oversight, or lack of local talent or in-house staff. For instance, a finance organization may decide to transform a struggling headquarters-based risk and regulatory function that is hard to oversee into a regionally based team, expanding and combining its role with other functions so that it not only monitors controls for Sarbanes-Oxley (SOX) but also for the Foreign Corrupt Practices Act (FCPA).

2

Mitigating risks—Any transformation has risks, but the risks of adversely affecting talent retention and business performance are higher in the delivery of knowledge-based processes. While organizations must always guard against negative impacts to business operations in a service delivery transformation, knowledge-based functions have heightened sensitivity and visibility when the transition doesn't go well. The consequences can come in the form of financial misstatements, which can cause erosion of investor confidence and shareholder value, or in extreme cases outright loss of company assets through fraud or negligence. Furthermore, problems in the knowledge-based world are often larger in nature than in a transaction-based environment. For instance, if an accounts payable team misses a payment, a vendor may become disgruntled, but if a tax team misses an annual filing, the repercussions in terms of fines and penalties are much more severe. The same magnification of risks occurs concerning loss of institutional knowledge since highly skilled personnel are harder to re-assign and/or re-locate. For instance, if an accountant, who has been with organization for 20 years, walks out the door because of dissatisfaction with the change, much insight into company processes and procedures may go with him, and this experience might be difficult, if not impossible, to find and replace in the same location or a new location depending on the transition plan.

A common pitfall is simply not acting. Companies often become paralyzed by the larger magnitude of risk that accompanies service delivery transformation of knowledge-based functions. However, just because risks exist doesn't mean they should be avoided at all costs. Instead, the risks need to be measured, understood and managed. For example, a finance organization may need to revamp its controls environment to protect against fraud or it may need to institute a new knowledge-manager role, implement new collaborative IT systems, and redefine the roles of key talent in order to preserve institutional knowledge. When it comes to mitigating the risks of transforming knowledge-based functions, "the devil is in the details," since it requires extra attention and focus compared to migrating traditional transaction-based work.

3

Defining process scope and executing the transition—When defining the scope of a knowledge-based function, the opportunities are rarely self-evident. It is often a multi-step process that crosses many boundaries of accountability and responsibility, which makes drawing the right lines and moving the right work more difficult. In shifting a transaction-based function, an organization would typically focus on implementing workflow technology, recruiting and retaining a sufficient volume of talent, building a continuous improvement culture into the shared services center, and clearly defining service-level agreements. These areas still apply to transforming knowledge-based functions, but they are not enough. The interaction between the retained organization and those in the shared services center is much more complex, since end-to-end processes involve extended teams and require multiple touch points. Thus, greater attention must be paid to designing the retained organization and a broader view must be taken in assigning responsibility and accountability and in keeping people consulted and informed. Processes, as well as their outputs, will need to be clearly articulated. Furthermore, people will need to be trained extensively, not only on the business-as-usual processes but also on the exception handling and the appropriate paths for escalating issues. The organization will also need to recruit and retain the requisite expert skill-sets, as opposed to just making sure it can attract enough people. Without the right skill-sets and proper training, the organization can lose faith very quickly in the new center if it cannot immediately help or provide service "just like the old group."

Organizations often make two mistakes in defining the scope and executing the transition of knowledge-based functions. First, they often attempt to "lift and shift," rather than "redefine and align" their activities to the broader organization as part of the transformation. This represents an often-missed opportunity to add value. In addition, they frequently conclude that an entire group has to move, which is not always the case. Just because a consolidation-accounting organization needs to be co-located with the Controller and CFO, doesn't mean that the data management, trial balance collection and standard consolidation accounting can't be performed remotely—possibly in a time-zone that supports the greater organization in "following the sun" to shorten the overall close cycle.

4

Facilitating governance and oversight—Referring back to the previous consolidation-accounting example, if teams responsible for data management, trial balance collection and level-one accounting are moved off-shore to help expand the hours of the work day and shorten the close period, who will lead that organization? Should these groups be placed within an existing transaction processing center? Should they report up through the legacy management structure, which is now many time zones away, or should that existing structure be duplicated in the new off-shore location, thus trading off cost savings in favor of on-site governance and oversight? These are the types of difficult questions that must be answered in defining the "to be" governance structure of a new group, relationship or center. The owner of this new entity must be chosen wisely and the reporting relationships carefully defined, most often reporting directly to business or functional leadership, as opposed to reporting through the shared services organization. Knowledge-based functions also require a lighter touch when it comes to control, since quality is paramount and highly skilled people are involved. These individuals need room to innovate and think through problems on their own; however, too little involvement and control from the retained organization can create an out-of-sight, out-of-mind mentality, leading to employees who feel neglected and who may be tempted to leave, taking critical knowledge with them.

A common misstep is to "copy and paste" the old governance structure into the new entity. While this sometimes works, the traditional governance structure is often based on organizational factors that are no longer present in the new service delivery model. A fresh look should be taken since there are more trade-offs as well as viable options for defining the governance structure of knowledge-based functions, as compared to traditional transaction-based processes.

5

Defining and measuring success—If a technical accounting team is outsourced to an "on-call" set of experts, then response time, satisfaction, and appropriateness of the support are more important than the number of requests handled. This example illustrates the differences between measuring the success of delivering knowledge-based functions, as opposed to transaction-based ones, through an alternative delivery model. Knowledge-based processes are generally lower volume with unique fact patterns and they are not defined by traditional transactional metrics, such as throughput, processing time, and cost per transaction. Creating metrics to measure success in terms of service quality and risk-mitigation is challenging, but it is critical, as is establishing a mechanism for ongoing monitoring of service delivery and for evolving the metrics and measures over time. After all, "what gets measured, gets managed." This old adage still applies to knowledge-based functions, but with an important caveat: while it's harder to develop qualitative measures, they still need to be simple. Focused, intentional and appropriate is the goal, not complex, cumbersome and incomprehensible.

Find a foothold

As a finance leader, the task of evaluating alternative service delivery options for your organization's knowledge-based functions can seem daunting. Breaking the effort into more manageable components can be helpful in finding a foothold. As a starting point, here are a few areas to consider:

- Gain management buy-in: Challenges will be encountered in any transformation, no matter how well planned. When transforming mission-critical functions, expectations of a smooth transition are high, and tolerance for disruption is low. Leadership needs to be on board with the effort and provide resources and support to help reduce delays and resolve challenges quickly as they arise. It's advisable to meet with leaders often and to be transparent with the planning effort. Alignment and buy-in should be assured before getting too far down the path. Once the implementation starts, stopping it can be difficult and costly.
- Define the team: Analyze the knowledge-based functions in your finance organization to identify where alternative service delivery models can make the most impact. Functions that are larger, geographically diverse and/or have a history of challenges make ideal candidates. Ultimately, settle on a scope that is manageable and tie off with leadership to make certain there is alignment.
- Build the team and plan the effort: Identify who will make up the core delivery team. Members should understand the subject matter deeply, but keep in mind that good change agents are needed. The work should be planned in conjunction with the business-as-usual milestones to ensure the project does not get derailed by prioritization debates.
- Evaluate the enablers: Assess existing systems and technologies to see if they can support the execution of an alternative service delivery model. Identify new systems and tools that will be necessary for centralizing and aligning knowledge-based processes across the global organization. Define design requirements and document functional specifications to ensure that the selected solutions meet the needs of all key stakeholders.

Service delivery transformation in action

Redesigning the service delivery model for the controllership of a global consumer products company

The controllership function within a wholly-owned subsidiary needed to change its service delivery model in order to withstand a number of internal and external pressures. Among them, the controllership had been experiencing some turnover, and the parent company was implementing a common ERP system, along with placing greater demands on the finance organization.

Deloitte led an effort to help the organization optimize the service delivery model of its controllership function to align with the parent company's requirements, streamline job responsibilities, and leverage new systems and outsourcing. To accomplish these goals, the engagement team:

- Performed a detailed activity analysis to identify current service delivery challenges (i.e., role fragmentation, areas of over utilization, and span of control issues)
- Reviewed the performance of the existing outsourcing provider to ensure it was supporting the right processes and attaining the agreed upon service levels
- Designed and implemented the future state processes that were required by the parent company and the new ERP system

As a result of this effort, the controllership function now has highly focused units with clear roles and responsibilities that are articulated through an organization-wide RACI model (i.e., responsible, accountable, consulted and informed). Additionally, critical personnel were promoted in order to monitor and manage the rise in outsourced activities, which additionally enhanced productivity and improved job satisfaction. Overall, the organization is much better suited to satisfy the current and future demands of the business and the parent company.

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Service delivery transformation for knowledge-based functions represents the next wave of value creation for the finance organization. To learn more about how knowledge-based transformation differs from transaction-based change, and why navigating the differences can be well worth the risks, please contact:

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