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cutting through complexity

Being the best: Inside the *intelligent* finance function

Shared services – Catching the next wave

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2. Shared services — Catching the next wave

> “Globalization and new technologies (have) allowed companies to concentrate activities to optimize costs without compromising effectiveness and efficiency.”

In the past 15 years, finance shared service centers have become so widespread that the idea of running a top-flight finance function without one is almost unimaginable. But now that the shared services model is so well entrenched as a leading business practice, finance leaders appear to give less priority to how they can harness emerging practices to adjust their shared services so they deliver even more value.

Shared service centers have grown exponentially since the turn of the 21st century as globalization and new technologies allowed companies to concentrate activities to optimize costs without compromising effectiveness and efficiency. In the past decade, shared service models have undergone several rapid evolutionary cycles, changing focus away from captive operations and toward outsourcing and off-shoring. Finance shared service centers drove significant gains in terms of process efficiency and economies of scale. They also freed retained finance resources to devote more energy to value-adding activities that better support the business and improve profitability.

Now the use of finance shared services is standard leading practice in most global companies. Along with traditional functions, like finance and IT, shared service centers are increasingly being used to centralize other functions, such as research and development, human resources, and sourcing and procurement. In the most recent wave of change, more strategic mixed, or co-sourcing, practices are taking hold.

In KPMG’s 2013 survey of senior finance executives, just over one-quarter of all respondents say they plan to invest in the use of shared service centers for the finance function. Of the high-performing respondents, only one in five plan such investment. While these results suggest that many companies are already reaping the benefits of previous investments in consolidation, the minority of respondents that do plan new investments stand to benefit considerably by catching the latest wave of changes to this dynamic business model.

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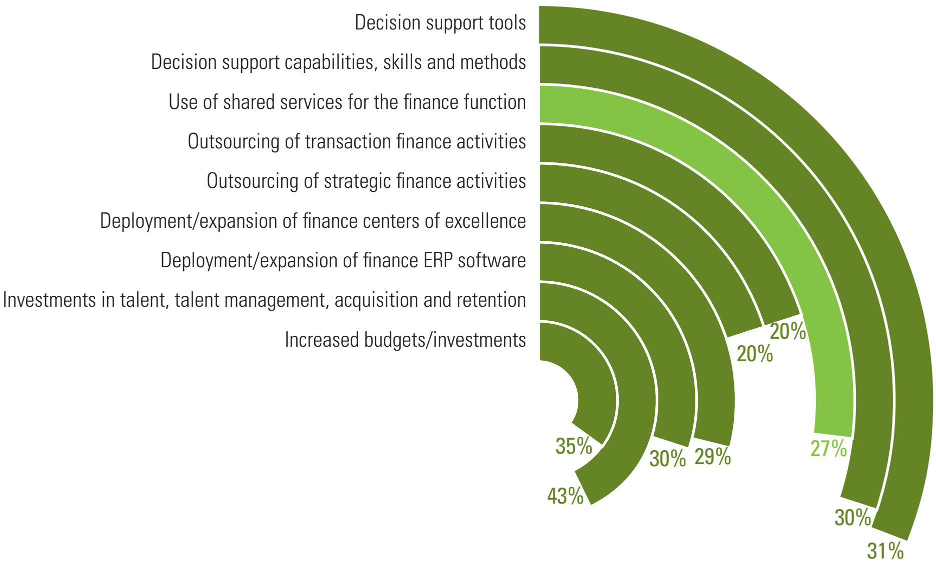
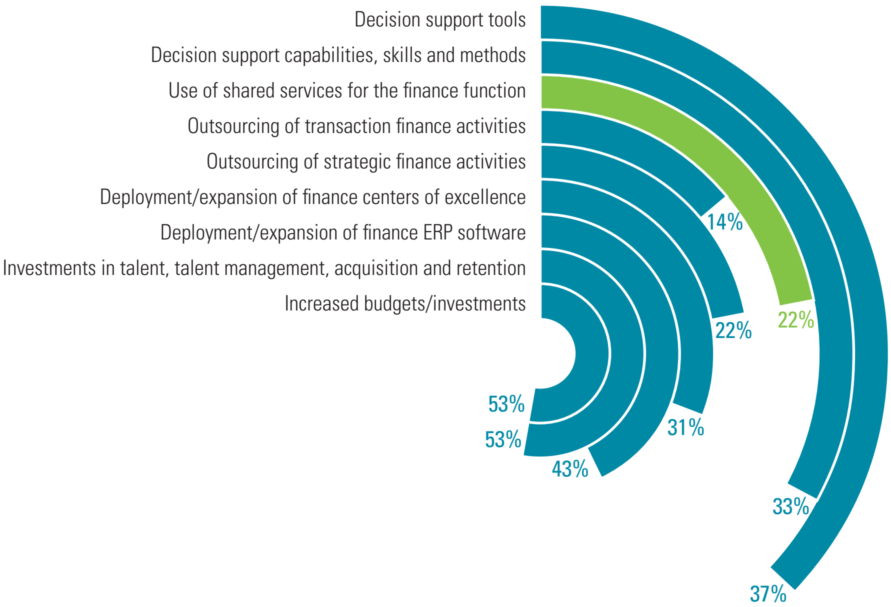
In which of these areas does your organization plan to make increased, tangible investments in the next two years?

All respondents



High performers



Source: KPMG International CFO survey 2013

> As with all areas of the finance function, companies that seek to derive more value from shared services need to enable the optimal combination of processes, technology and people.

As with all areas of the finance function, companies that seek to derive more value from shared services need to enable the optimal combination of processes, technology and people. Our advice in this section aims to help finance executives answer these questions.

- **Processes —** Which processes should be assigned to shared service centers and which processes should be retained? How can companies ensure they are managing these processes end-to-end across the retained and shared services organizations and, if any, third-party outsourcing service providers?
- **Technology —** How does technology influence the need for constant innovation?
- **People —** With constant reinvention and churn, how can finance executives keep their people engaged and motivated? How can they develop new and compelling career paths for retained and shared services organization staff and management?

Which finance activities can be co- or outsourced?

During the early advent of shared services, outsourcing and offshoring, companies transferred transactional finance processes (such as accounts payable/receivable, reconciliations, payroll and finance systems maintenance) into these alternative delivery models. Now companies are scrutinizing their front-office processes to see if they can benefit from leveraging these successful offshore models. Increasingly, companies are now centralizing, offshoring and even outsourcing more knowledge-intensive finance-related processes such as strategic sourcing and procurement, treasury services, tax including transfer pricing, master data repository management, data analytics, management and regulatory reporting, and financial statement preparation.

High-volume, low-value finance activities, such as bookkeeping services, general ledger journal postings and reconciliations, tax compliance work and accounts payable functions, continue to be the most likely finance activities to be offshored or outsourced. Companies also are gaining confidence that third-party providers with the right tools and training can be relied on for certain low-volume, higher-value work, such as collections (accounts receivable) and reporting. The increasing popularity of innovative arrangements such as gain-share contracts, where payments to vendors depend on improvement gains, can make the outsourcing of collections and other finance activities even more attractive.

The outsourcing of more strategic functions in niche areas such as tax and treasury is also rising. These areas require teams with highly specialized knowledge and experience that few global companies have the need to fully support in-house. By outsourcing activities like customs processing, tax dispute resolution support and cash hedging, companies can tap the skills and experience of worldwide networks of specialists in these fields if and when a business need arises.

What activities to retain?

Traditionally, finance functions give priority to retaining higher-value activities that support the business and contribute to decision-making. Activities may be retained in order to maintain knowledge within the company, protect work of a proprietary or privileged nature, meet local regulatory requirements, or tighten control over business-critical activities.

The need to groom the next generation of finance leaders also causes companies to retain certain finance functions. For succession planning, younger finance executives and the company both benefit from hands-on training in analyzing financial reports and practical experience using forecasting and analytic tools. Cross-migration of resources — from captive or outsourced units to business line functions and vice versa — is becoming a common way to train next-generation finance talent. Some large global organizations mandate that their finance professionals need to spend a period of time in their shared service centers (onshore or offshore; captive or outsourced). Similarly, smart, young professionals working in the shared services are being rotated into line functions to improve their understanding of the business and build valuable on-the-ground relationships.

As mixed sourcing practices become more popular, companies are being more strategic about which finance activities they retain. For example, some consumer goods companies are forgoing call centers in favor of retaining activities where the volume of customer contact is low but the value of that contact is high. Since outsourcing providers and shared service centers tend to have high employee turnover, these companies have more to gain by retaining activities where close customer relationships and continuity of contacts are important.

Review and approval of period end results and planning, budgeting and forecasting continue to be finance process areas that need to stay close to the business from a functional and control standpoint, but this no longer implies a close geographic proximity. Indeed a hybrid model with a shared service center working together closely with financial controllers and business managers seems best practice here.

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Status quo = diminishing returns

While forward-thinking companies are re-thinking their sourcing practices, others seem to believe their shared service operations are sufficiently mature and that no further reorganization or investment is needed. This can prove a dangerous position to take. As noted earlier, the apparent lack of appetite for new investment in shared service operations suggests that the majority of companies are satisfied with the status quo. But as new technologies, business models and market opportunities emerge, companies that stand still run the risk of losing competitive advantage.

Shared service models are relatively new outside of North America and Western Europe but they are evolving quickly. We have observed significant technology shifts every few years in the tools and processes that support these business models. Balance sheet account reconciliations have evolved from the downloading of reports from an ERP onto spreadsheets to the use of sophisticated finance governance tools (such as Blackline and Trintech) that easily interface with legacy ERP systems. Similar advances have occurred for tools and technologies for procure-to-pay activities, including scanning, split-screen technology, workflows and real-time goods received note (GRN) processing. Tools continue to improve for activities such as collections, month-end closing and cash matching.

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Outsourcing change management — the Build-Operate-Transfer model

One innovative way that some companies are managing the risks of new shared service center implementations is through the Build-Operate-Transfer model. In this approach, the company engages a third-party service provider to build the new operation, manage the changeover, and cooperate in overseeing the center's operations for a limited time period (e.g. three years).

Once the shared service center is running smoothly, local finance team knowledge is transferred in and the kinks are ironed out, operational responsibility reverts back to the company. This approach gives finance executives access to the know-how and tested change management processes of third-party service providers during the implementation and start-up phase. It also ensures there is a clear plan in place to bring operational responsibility back in-house when implementation is complete.

Continuous improvement is key

Companies should recognize that they likely will not get things right at the outset. Rather, they should build in the expectation that the operating model will evolve for the better over time, and put in place capabilities and change management processes to facilitate continuous improvement. That way, the company can help ensure that it will continue to derive maximum value from its finance shared service operations, now and into the future.

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