



Taking It To The **Next Level**

Shared services centers move up the maturity curve





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The microscope is on the performance of the estimated 2,500+ finance and accounting shared services operations worldwide now reaching a level of steady-state performance maturity. What is next for these centers as today's economic realities, in concert with increased competition and globalization, demand more?

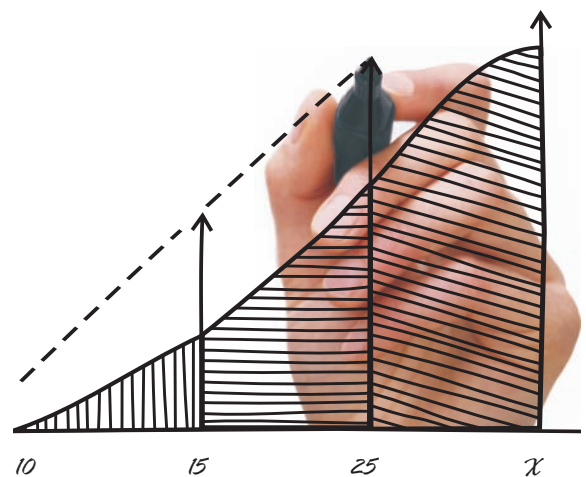
Seven to ten years after the major wave of shared services investment, the first step changes in business process performance have been achieved by consolidating back office operations in shared services centers ('SSC'). Aggregation of processes has now yielded the benefits of scale and scope. Moving to off and nearshore locations has delivered cost arbitrage. Processes have been normalized, resulting in standardization across business lines and geographies. Business units have adopted new ways of working. And the paraphernalia of good business management - dashboards, service levels, KPIs - have been put in place, supported by reasonably efficient governance models. Has the end game been reached?

Considering that over 50 percent of the finance and accounting costs can be attributed to transactional processes, companies are merely scraping the surface of the opportunities inherent in the SSC business model. The current economic climate will continue to put pressure on the cost of transactions, while at the same time there is an increasing need for SSC operations to support top line performance - an expectation which may not be able to be met through the original SSC design. In an era of scarce

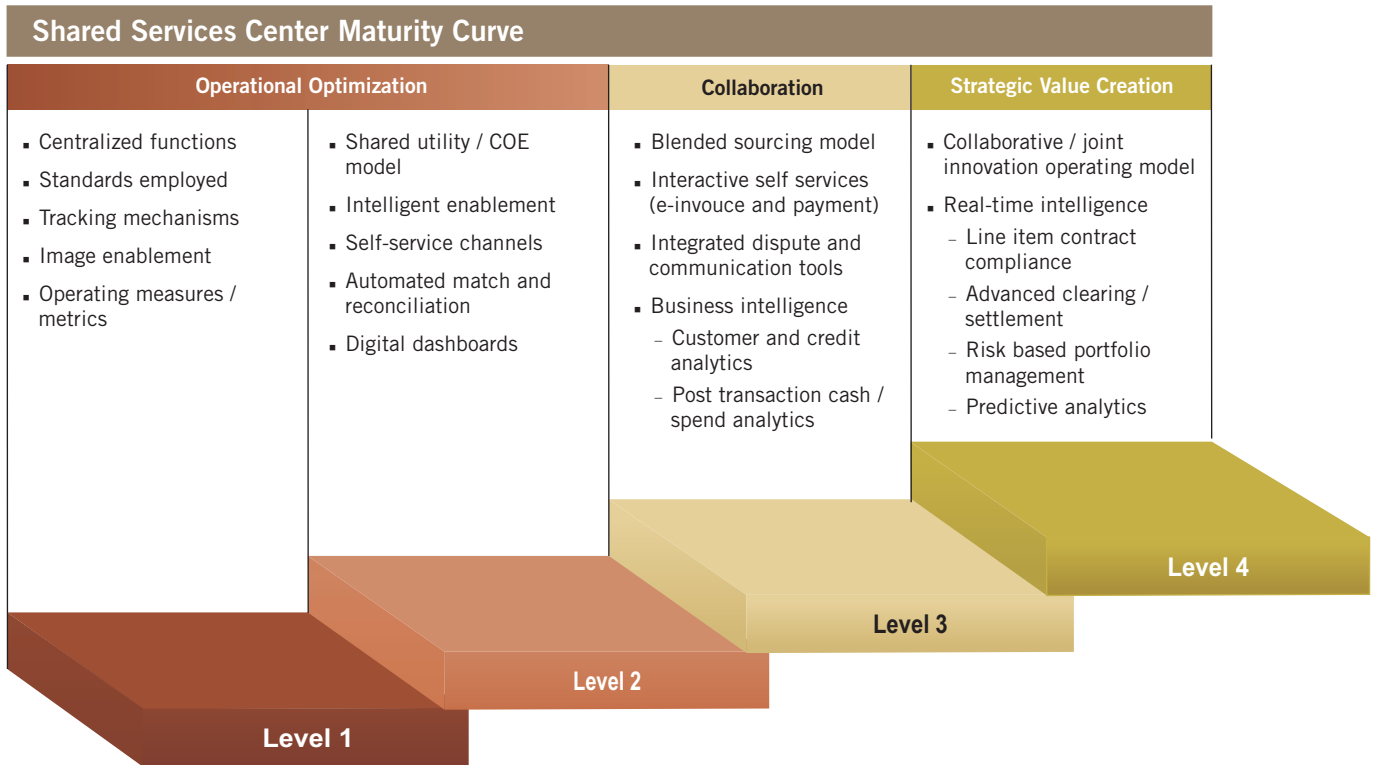
resources, such as capital and talent - how can SSC management simultaneously drive continuous improvement in the cost structure and position the operation as a true 'value add' to the organizations? Fundamentally, how can the SSC **make sustainable improvement in transactional functions by moving up the maturity curve, truly becoming strategic to the business?**

This whitepaper sets forth a point of view relative to the opportunities for SSCs to move up the maturity curve, providing incremental value to reposition the operation as a strategic differentiator. Fundamentally, the original operational design premise, business case, toolkit investment and value orientation together miss the mark when it comes to the value that the SSC can deliver.

What Is The SSC Maturity Curve?



Normatively, SSCs evolve according to a predictable maturity curve with majority only attaining the first level of maturity, yielding expected reductions in cost and improvement in cycle time, generally - but not always - with an increase in quality. Notably, the lack of evolution to date is a direct result of the design premise on which SSCs were established, the maturity and acceptance of global operating models at the time of inception, and the status of technology and availability of enabling tools - rather than a conscious effort to stop evolving.



In and of itself, SSC formation was - and still is - a major change initiative for most organizations, moving away from vertically integrated processes in order to obtain better cost through process aggregation. Therefore, it is natural that the first level of maturity, focuses on the aggregation and improvement of transactional activities, deploying the levers of standardization, consolidation and measurement, the premise being the elimination of management cost, attainment of scale, and aggressive application of the old management saw "you cannot manage what you cannot measure." an investment in technology and process improvement, the business case is typically attained by moving to lower cost operating locations, leveraging existing tools, and changing the management span of control.

The distinction between Level 1, where most SSCs find themselves, and Level 2, is significant. Level 2 builds on the basic platform, fundamentally changing the work by looking across processes to build scale, and aggressively optimizing operations through workflow and self-service, designed to reduce the task level content of operational activities within the SSC.

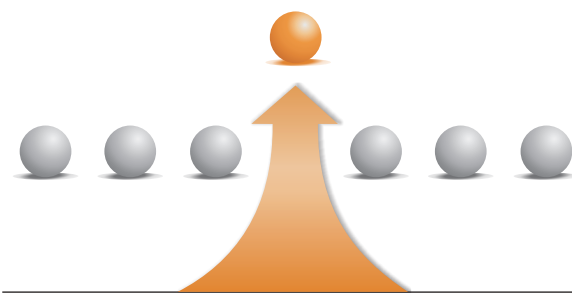
Maturity is only reached when the SSC advances to the next two levels, taking operations to the next stage of performance through the implementation of advanced collaboration and analytical solutions designed to equip the SSC with the tools to actually impact the core business, not just the cost of back office operations. In Level 3, the SSC focuses on collaboration in the form of blended sourcing models, advanced communication mechanisms, and post transaction analytics that enable the SSC to advise its customers on risk trends. Ultimately, Level 4 SSCs reach a stage wherein they become a joint innovator - collaborating with the business, third-party providers, domain experts to take the business of shared services to a new level. At this level, analytical capability shifts to the delivery of real-time intelligence that is integrated into transactional operations, directly modifying business behavior and outcomes.

Fundamentally, over time, as the SSC scales and matures, it is expected to deliver both incremental year-over-year savings and a sea change in how the work is being done through process or technology innovation. Some corporations expect the

organization to morph into a higher value-added operation, moving up the maturity curve, not just operating a low cost internal processing shop. However, with resources at a premium, investing limited capital to promote and sustain required changes in operations and technology is not a corporate priority. Having completed what management generally considers substantial investment in consolidation, talent, and base technology, such as an enterprise-wide platform change, there is often resistance to spending more money to elevate and expand the performance of what is considered a non-core, enabling function.

But year-over-year cost reduction and improved cycle time can only be delivered through top down, head-count reductions for so long, especially after all business unit / geographic-specific processes are migrated into an SSC delivery model. Sooner or later, the SSC is forced to look for other means with which to deliver upon expectations. Additionally, captive SSCs are now consistently competing with external options offered by business process outsourcers, who have the advantage of scale, investment in innovation and a commercial mindset towards performance which is driven by the market.

Evaluating The Options



Given their history and development, how should SSC organizations move up the maturity curve in an era of scarce resource? The answer is fairly simple - **change the operating model, optimize processes through technology, and leverage a vast, untapped asset -**

the knowledge that is inherent in the operation - to create actionable business insights, changing the fundamental value equation. Importantly, each of these options does not create major business dislocation, but can be implemented internally as and when the organization is ready for change, and as business needs allow for the repositioning of the SSC as a business partner.

Adjust the operating model

Fundamentally, the organizational hypothesis upon which the first tranche of SSCs was structured is no longer current. The ability of companies to embrace globalization of work, the range of processes which can be delivered remotely, the advancement of quality in lower cost locations, and the extent to which engagement models have become more 'risk proof' and sophisticated is now starkly advanced. Several of the model adjustments which will take SSCs up the maturity curve include the following:

- **Align processes**

Because SSCs were originally established to deliver low risk transactional processes, the extent to which processes could also be redesigned to promote end-to-end delivery was often overlooked. The belief that what can be delivered out of the SSC was constrained by geography, language, complexity or knowledge of the customer was a design constraint. As a result, processes delivered from the SSC often have a substantial number of coupling and transition points, resulting in increased errors and requiring multiple groups to build an understanding of a discrete process, policy or rule.

A simple, but commonly overlooked opportunity is the alignment of macro level, end-to-end processes delivered by one team or virtual group. When end-to-end process delivery is the responsibility of one team, the ability to drive efficiencies up / down the value chain is consistently higher, often as much as 25 percent, and the exceptions / error rate is correspondingly lower by as much as 42 percent, all while improving customer satisfaction.

To cite just one example, most organizations retain order management as part of the macro level order-to-cash (O2C) workflow within geographic business operations in response to language requirements, time zone concerns, or cultural affinities, all of which are perceived to negatively impact customer service. However, by restructuring process flow, perhaps introducing more sophisticated self-service solutions and concurrently tapping into the increased capabilities available in lower cost locations, SSC operations can deliver processes end-to-end. And even more value can be created by linking other downstream functions - such as accounts payable - with O2C. Fundamentally, the larger the ambition for end-to-end process alignment, the greater is the accrued benefit.

- **Change the organizational construct from shared management to shared utility**

Most SSCs were designed to benefit from a 'shared management' structure, typically aligning common functions under a single span of control management structure in order to alleviate some component of cost. Few have actually implemented more evolved 'shared utility' models, in which a single functional group delivers a macro work stream across business lines or customers, using a common, consistent process. The shared utility concept, typically manifested in the form of a Center of Excellence ('COE'), has been around for years, but rarely is this model implemented in such a way that it consolidates and standardizes functions to alleviate the need for specialization, delivering economies of scale and significant quality improvements.

The shared utility model not only takes advantage of volume, but typically delivers significant quality improvements and cost savings by reducing redundancies. It is most appropriately implemented in situations with high transaction volumes that are relatively consistent in form, and have a low degree of variability. The model can be phased in, and depending on the fragmented nature of the existing state of delivery, is typically more successfully deployed only after the SSC is established.

Case Study

Moving To A Shared Utility

WNS established a SSC program in 2006 for a risk advisory company, initially consolidating finance and accounting processes into global locations under a shared management structure. This resulted in operating cost reductions in excess of 40 percent, productivity increases in excess of 31 percent, and process improvements in such areas as reductions in reconciliation activities by 60 percent.

The program's second wave is focused on obtaining additional operating savings in excess of 20 percent by realigning the functions in existing centers into a shared utility or into functional COEs. Rather than operating multiple accounts payable organizations aligned under a single manager, the company now taps into an enterprise-wide accounts payable COE with common processes, procedures, and shared resources.

- **Move to a blended sourcing model**

Once a SSC has captured the initial benefits of consolidation, standardization, and labor arbitrage, implementing some degree of business process outsourcing (BPO) gives a organization the opportunity to leverage scale offered by a third party's innovation, technology and investment. This strategy either eliminates the need for direct capital injection, or increases the level of delivery commercialism through a contractual structure. For early adopters of the SSC model, it may be especially beneficial as a third party BPO provider can quickly deliver savings through economies of scale, in effect resetting the business case.

An outsourcing strategy can be deployed in several ways. If there is pressure to further reduce the cost of existing services within the SSC's scope, moving transactional processes offshore, and leveraging the provider's lower cost location represents a solution. If capacity or volume peaks and valleys are issues, the provider's 'extended enterprise' instantly delivers without a

corresponding increase in capital investment. A BPO provider may also have a broader range of services than the SSC, allowing management to shortcut the development of these functions, permitting a 'lift and shift' 'as is' to a new platform or process.

Case Study

Transformation Through Outsourcing

In 2004, a global multi-line insurer established a captive SSC operation through both their own means and contracting with three outsourcing providers to implement a Build-Operate-Transfer (BOT) model. After obtaining the initial benefits of labor arbitrage and consolidation, the organization switched strategic direction and consolidated the operations under a single provider, WNS.

WNS implemented a transformation program that yielded significant incremental benefits including the rationalization of over 100 systems, a 43 percent reduction in transaction processing time, and a 23 percent increase in customer satisfaction. Through a formal continuous improvement program that could not be developed under the previous operating model, several Six Sigma projects yielded added benefits including USD 1.4 million in increased collections each month and a reduction in the claim life cycle by 65 days.

A logical scope to consider for finance and accounting outsourcing includes decision-based functions which are typically tied to transaction services. Sophisticated providers now deliver complex end-to-end finance and accounting services ranging from cash management and treasury to more advanced, core business functions such as actuarial services for the insurance industry. Although not displacing the organization's ultimate decision authority, they provide the underlying transaction and information / recommendations necessary to make decisions. Given providers' analytical capabilities, combined with the level of skilled, accredited resources required, the outsourcers can offer a feasible option.

Case Study

Supporting Decision Based Processes

A global consumer electronics company outsources treasury management to control over USD 15 billion in assets, and perform third-party settlements and FX netting payments of USD 8 billion and USD 200 million per day, respectively. The scope of services delivered by WNS, the provider, range from the management daily cash position in 23 currencies, forecasting cash for 150+ group companies, managing bank and intercompany settlements across 100 affiliates, credit monitoring, stop loss reporting, and conducting leads 'n lags hedging analysis along with a complex month-end closing / reporting. Traditionally considered a 'hands off' area for outsourcers, WNS migrated an existing shared service function to a location with a lower cost of operations while improving the level of quality / consistency required by this critical business function.

Optimize processes through technology

In most cases, organizations initially implemented SSCs to alleviate cost pressures by attacking a) fragmented or disparate policies, processes and supporting technology platforms by business line or geography; b), redundancies in functions within business units preventing even minimal levels of standardization; and c), the high cost of labor by moving to lower cost offshore locations.

Most SSC business cases were initially intent on generating tangible short term savings, and establishing a track record in order to get the investment to scale. SSCs have historically tended to focus attention initially on components such as talent and structure, as a result establishing operationally-intensive solutions. And, given the need for the acceleration of return without incurring extensive capital investment or the disruption accompanying systems change, the implications of the right processes enabled by the right technology were often deferred or simply overlooked. When corporate resources are scarce, once the SSC transitions to steady-state operations, it becomes increasingly difficult to develop a business case for these initiatives.

Even if the implementation of technology-enabled processes was integral to the initial SSC business case, the full benefit has been largely unrealized. For instance, it is not atypical to find image-enabled technologies implemented with limited levels of workflow. However, rarely is that workflow integrated into transaction platforms providing a single source system in which to 'work a transaction'. Additionally, advancements in business rule engines can enable calculated decisions based on analytical risk / value models that can ultimately eliminate the need for human intervention altogether.

Optimization solutions have advanced significantly since the first wave of SSCs were established. They facilitate the extraction of greater value out of SSC operations regardless of the operating / sourcing model. Given that solutions are directed toward the reuse of existing assets, any intrusion into system environment is minimal. As accelerating both implementation and the resultant realization of benefits.

Although a full range of technology-enabled process optimization tools is available in the marketplace, several stand out as having optimal impact on SSC operations:

- **Intelligent enablement** – Image-enabled technologies with some level of workflow can generally be found within the SSC environment, but they typically have been implemented in a simplistic fashion. 'Next gen' enablement features workflow tools inclusive of transaction platform integration, business rules engines that promote calculated decisions based on analytical models and case management solutions that not only manage the tasks associated with workflow, but facilitate escalation, exception management, and discrepancies. Intelligent enablement can also be delivered through the implementation of business process management ('BPM') solutions which link case management capabilities with advanced rules engines and multiple integration methods into transaction and third-party data sources, providing a means of automating not only the process, but importantly also the decisions within those processes.
- **Self-service channels** – When SSC management analyzes their workload, they quickly conclude that a large percentage of their time is spent on tasks associated with engagement with and administration of external entities. These tasks

range from administration of relationships (i.e. contracts, purchase orders, master data), transactional activities (invoices, payments), to dispute and exception management, and general communication. In reality, most of these tasks can and should be pushed to their point of origin.

This 'self service' approach can be accomplished through the implementation a combination of portals and case management solutions. The portals provide controlled access to self-administer relationship data and initiate / track transactions, serving as a communication vehicle for suppliers, internal / external customers, and employees. The case management solution provides a mechanism for 'queuing' changes for review, approval, or routing while providing an automated change log for audit purposes.

- **Automated matching and transaction allocation** – The ability to support the invoice management, matching, exception management, and payment decision process, leveraging a 'straight through' approach, will significantly improve efficiencies, reduce errors, and lower operating costs. By leveraging the transactional value of the backbone ERP system by overlaying BPM solutions, invoices can be reconciled at a line item level, authorization requirements can be routed, and pay / no pay decisions can be rendered based upon established rules. This solution also provides a means of capturing exceptions across multiple sources (paper, electronic, P-Card, T&E) that can be accessed in a single location, evaluated and resolved, potentially combining with a portal solution that serves as a self-service communication vehicle.
- **Communication, exception and dispute management** – Time and human capital spent on root cause analysis, communicating between parties, managing follow-up action items, and resolving exceptions / disputes accounts for as much as 25-30 percent of the transaction processing cycle. The implications of variability in resolution are also substantial, resulting in a high level of status updates through voice and e-mail traffic amongst and between internal SSC functional groups, internal and external clients, and suppliers.

Implementing the right combination of intelligent workflow / BPM engines and self service communication tools such as portals significantly enhances the capability of the SSC to eliminate or

automate high volume, low value tasks. In essence, the combination of these tools provides for a closed end loop process that addresses a substantial amount of the volume via automated means, with the exceptions requiring lower handle times due to improved availability of relevant data, standardized resolution based on established rules, and exception / scenario - based workflows.

- **Automated reconciliation** – It is critical for enterprises with high volumes of transactions performing deposit verification, transaction and balance sheet reconciliation to automate reconciliation and exception management processes. Most ERP or CPM solutions promise such automation, but in reality can only match approximately 60 percent of the transaction volumes. The bulk of time is spent investigating and resolving the remaining transactions. Companies serious about moving their SSC up the maturity curve should seek reconciliation solutions with advanced, automated matching algorithms capable of handling 90 percent or more of transaction volume, greatly reducing the manual workload required to support the discipline within the SSC. Such automation allows the business to identify exceptions faster, before they age and become 'stale' – often increasing the ability to successfully resolve the issue. Interactive workflow, research, review and approval processes are critical. Some advanced systems go beyond mere matching to automate a significant percentage of exception management processes.

Case Study

Automated Reconciliation And Exception Management

The numbers often speak for themselves. For example, one of Trintech's customers, a global restaurant chain, realized productivity gains of 300 percent, reducing the number of bank accounts used for deposit verification from 350 to a total of 130 – a 37 percent reduction in accounts which translated to significant savings in bank fees and statement analysis costs. Envelope processing costs alone were reduced by USD 226,000 annually. As a result, the company now spends 25 percent less time investigating deposit corrections, all attributable to an advanced and automated exception management workflow.

Leveraging knowledge / intellectual capital

The hype about knowledge management as a value-added SSC function has been tossed around the industry for some time. For example, in the F&A arena, management processes within and around cash management and corporate spend - whether direct or indirect - have been touted as the 'next big thing' for aggressive cost reduction for almost five years. And the promise of a stream of benefits far in excess of the cost of SSC service looms large in most SSC's strategic roadmap as they attempt to climb the value scale.

In reality, the leverage of knowledge / intellectual capital within SSC operations should far exceed the value produced through operational efficiencies, perhaps as much as 10-fold. If an organization can harness the data from a full range of transactional activities, the ability to effect change in the core business is extremely powerful. Outside the traditional areas of spend management, SSCs also have the ability to better understand the level of risk attributed to the organization, the nature of customer requirements and expectations, and the efficiencies of peer internal and external organizations.

Vast amounts of data flows through SSCs on a daily basis, but is not necessarily harnessed or interpreted in a manner that provides 'actionable insights,' either to improve SSC operations, or inform the core business as a whole. Frequently, the generation of most information tends to be forensic in nature, limiting the ability to effect change in real time. If SSC management can isolate cause and effect from the data they do have, and apply the right analytic rigor on a consistent basis, the opportunity to impact business outcomes, not just reduce cost and efficiency for processes in scope, looms large.

Several opportunities to provide potential return include

- **Operational controls / efficiencies** – The traditional SSC environment is highly focused on managing the day-to-day operations and, as such, little time or effort is spent on the effective use of this information. SSCs can utilize analytics to better understand their root transactional activities / trends, improving operational performance in the form of workload management, financial and budget forecasting, and risk identification. The outputs from analytic processes can be harnessed in both

benchmarking efforts and link with corporate wide performance improvement / quality programs such as Six Sigma / Lean and Kaizen.

Case Study

Enhanced Operational Controls

A USD 20 billion soft drink bottling company set up a captive SSC model in 2001 using Trintech's software. This center was reconciling cash from 320 locations daily and 236 bank accounts monthly. Tracking was managed through Access databases with downloads from SAP, and reconciliations were completed in Excel with final documents retained in paper resulting in an auditor's nightmare. As a result, there were numerous inefficiencies in the process.

A technology solution was implemented to allow the SSC to eliminate paper, reconcile daily to the highest reporting level, improve efficiencies and move one step closer to a truly end-to-end process. Key benefits from increasing automation included standardized processes, accurate bank to book reconciliation, enhanced reporting through workflow, reduced variances, automated journal entries, increased control and better cash management. The efficiencies achieved exceeded expectations with 99.9 percent of bank-to-book reconciliation being completed within 3 days, 85 percent of which had no manual intervention. Enhanced transparency and standardized templates now ensure the SSC fully adheres to the company's compliance policies.

- **Risk management** – Because financial transactions serve as a window into business decisions, SSCs have a substantial opportunity to support corporate decision-making in a risk advisory role. By combining analytics with predictive modeling, key issues trends can be isolated and presented in a manner that supports ongoing decision-making on both divisional and corporate levels.

For example, support for processes such as fraud identification and analysis can serve as a value-add given their visibility, ability to provide the insights into historical and case study trends, and the capability to utilize existing control mechanisms to communicate, escalate, and ultimately resolve risk areas for the organization.

- **Cash / spend management** – Cash management is generally a SSC foundation process. However, the organization rarely goes one step further, leveraging analytics to better understand the efficacy of clearing methods, the timing in relationship to the most advantageous float recognition, or real-time currency advantages. The SSC has the bulk of the data necessary to analyze both direct and indirect spend, categorize and benchmark to the industry or peers, and then leverage this information in supplier negotiations.

Summary

The context in which finance and accounting shared services centers find themselves will not change for the foreseeable future. More value is expected but cost and capital pressures will likely persist, perhaps even threatening the future existence of the captive SSC. Having completed what management generally considers investment in consolidation, talent, and technology, there will be continued resistance to spending more money to elevate and expand the performance of what is considered non-core, enabling functions.

No two companies are the same, but the trajectory of the Maturity Curve provides a guideline for the evolution of existing SSCs. Several opportunities are available to spur maturation-- organizational and process rethinking, optimization of the existing environment, and selective, limited investments in strategic facing initiatives that harness the power of the vast amounts of data that flows through operations. If the goal of the SSC is to fulfill the operational charter to which the corporation originally subscribed while extending that vision to become strategic to the business, these opportunities should be explored as steppingstones.

About Trintech

Trintech helps businesses unlock the hidden potential – in their people, their processes, and their data – in order to attain and sustain competitive advantage in an increasingly regulated and complex global economy. The company was founded on the belief that the office of finance can be a catalyst for true innovation in your business. Trintech's Unity Financial GRC software suite supports financial compliance, financial risk management and finance transformation projects by automating repetitive and error-prone manual tasks, consolidating dispersed and spreadsheet-driven processes and providing access to critical decision-support information.



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WNS is a leading global business process outsourcing company. Deep industry and business process knowledge, a partnership approach, comprehensive service offering and a proven track record enables WNS to deliver business value to some of the leading companies in the world. WNS is passionate about building a market-leading company valued by our clients, employees, business partners, investors and communities.

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