I. Executive summary

The role of the chief financial officer (CFO) and the finance organization has evolved beyond traditional boundaries and is expected to continue to expand in influence and scope into the next decade and beyond. While many finance leaders are still mired in management of transactional activities and functional silos, this new breed of CFO is already leading with a new, more holistic approach that positions their enterprise ahead of the curve, moves it into top-quartile performance and keeps it there. One way CFOs are achieving this is through flexible service delivery models that enable a more agile organizational design for greater resiliency, responsiveness and ability to anticipate change in today’s volatile marketplace.

IBM’s Institute of Business Value* study titled “The New Value Integrator: Insights from the 2010 IBM Global CFO Study” strongly supports this premise. The study collected responses from more than 1,900 CFOs and showed that optimally performing companies excel in two areas: finance efficiency and business insight. Finance efficiency is defined as enterprise-wide process and data standards while business insight is defined as strong analytical capabilities, a highly effective talent pool, and the deployment of a common planning platform. Both emerged as the top enablers of financial performance as they strongly correlated to growth in earnings before interest, taxes, depreciation and amortization (EBITDA). What the study reveals is that the combination of these two capabilities—strongly influenced by the CFO and culture of the finance organization—creates a powerhouse effect enabling companies to execute core finance activities very efficiently. This “dynamic duo” of efficiency and business insight, demonstrated by Value Integrators, is the secret recipe that contributes to significantly better financial performance and business resiliency, and ultimately, leads the enterprise to outperformance when compared to its peers. The study found outperformance of Value Integrators extended to each financial measure examined. From 2004 to 2008, Value Integrators experienced 20 times greater growth in EBITDA, 49 percent higher revenue growth, and 30 percent more return on invested capital. In

*IBM Business Consulting Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior business executives around critical industry-specific and cross-industry issues.
addition, the study highlights Value Integrators also have an almost 20 percent better operating efficiency ratio, which is Selling, General and Administrative (SG&A) costs as a percentage of revenue. Clearly, the CFO and finance organization have a significant impact on business value and overall performance and will continue to do so well into the future.

A key takeaway from this study indicates that top performance begins with high finance efficiency enabled with enterprise-wide process and financial data standardization, which lays the foundation for business insight. Getting the basics right up front helps Finance build credibility and integrity in the financial data, which when coupled with non-financial (“operational”) data standardization, facilitates higher satisfaction in analytical capability. The biggest driver shown to accelerate this level of standardization is global process ownership. Interestingly, most CFOs we interviewed clearly understood that process and data standardization could dramatically increase efficiency while paving the way for embedded analytics, automation and superior business insight through a common technology platform—but many have struggled for years, even decades, with widespread implementation.

Even companies who have been doing internal shared services for many years and have achieved moderate success in standardization remain challenged to move to the next level of performance and achieve the full range of benefits possible from their shared services strategy. Flexible and agile hybrid models based on newly expanded outsourcing provider capabilities are now available offering companies a broader range of options, empowering them to act rather than debate and design. These expanded capabilities extend to single or full-scale, back office business process outsourcing (BPO) alternatives—including multiprocess supply change management, human resource, finance or customer relationship management service delivery models. In addition, companies with internal captives are forging innovative partnerships that enable them to more fully leverage existing captive organizations and offer new ways of working across the enterprise, positioning them for global integration and top performance.

II. Rethinking the path to transformation

How do these stellar organizations get to the top and stay there? First, the CFOs in these organizations recognized that it was imperative to do business in a new and better way. The forward-thinking CFO is beginning to understand that the new benchmark should not be total cost of finance alone, but rather how enterprise-wide process and data standardization combined with strong business insight enablers help to take their role as business partner to a different level and contribute to overall business performance and enterprise strategy.
Faced with the “new normal” of continuous instability in the marketplace, these thought leaders were ready to embrace a bold and innovative approach across the enterprise to accelerate standards adoption. Many organizations—some with their own shared services models in place—have begun to take advantage of the maturity of the BPO industry. This approach enables the enterprise with internal shared services to accelerate its ability to take its existing model to the next level of performance by leveraging a provider’s expanding global footprint, enhanced analytics capabilities, and established operational excellence methodologies (such as process industrialization and proven process models) as well as significant and ongoing investment in tools, technology and process and industry expertise. This shift toward a hybrid model also offers clients the opportunity to fluidly extend their scope and create centers of expertise for more complex processes, such as planning and performance measurement, or to add other back office process scope to further leverage investments in their captives. With increased focus on the importance of advanced, integrated analytics that an agile, world-class BPO provider can offer, this combination of flexibility, innovative capabilities, skills and experience has raised the bar of performance—challenging most companies to stay abreast on their own.

In fact, many internal shared services organizations have tried to “ship, then fix” their processes themselves and yet failed to reach optimal levels of performance. The IBM study found that even with an internal shared services model, the finance teams spent close to half its time (46 percent) on transactional activities. Those that did outsourcing enterprise-wide with IBM for their transactional activities spent less than 30 percent of their time doing so. One key reason for this is that the process-led outsourcing model easily aligns with the governance model, which is global process model driven. This structure combined with advanced process optimization capabilities are enabling IBM’s outsourcing clients to make a significant shift away from transactional activities and provide more business value.

It comes down to several key questions every company should be asking its shared services organization: Can we keep pace with performance of transactional activities without outsourcing at least some of those
Executive Brief

It comes down to several key questions every company should be asking its shared services organization:

- **Can we keep pace with performance of transactional activities without outsourcing at least some of those processes?**
- **With the continuing maturity in BPO and investments, can the performance of our internal shared services match the maturity models capabilities that BPO offers?**
- **What is our next step to extend the leverage of our internal shared services captives?**
- **Do we truly know the very latest capabilities that a leading provider offers—and whether our competitors are leveraging them today?**

Success stories show that the enterprise can begin to realize rapid, substantial operational savings and enterprise business benefits (such as improvements in working capital and spend savings) by moving some or all of its back office functions to an alternative delivery model backed by an experienced provider. This alternative delivery model—defined as a full BPO, a managed service, build-operate-transfer (BOT) or hybrid shared services arrangement—enables more rapid execution of the “ship, then fix” model. In the past many companies believed they needed to “fix” their systems (enterprise resource planning or ERPs) first before they “shipped” their processes into a shared services model, either internally or one managed by an outsourcing service provider. Now, with a BPO partner, existing processes are shipped “as is,” and benefits of consolidation and optimization (defined as simplification, standardization and automation) start to quickly accrue. With this representing about 80 percent of the total transformation benefit, an accelerated time to benefit is virtually a guarantee. In addition, new BPO analytics capabilities offer clients the opportunity to align objectives with their providers, assign accountability for delivery of benefits, and gain commitments to expected outcomes—and these outcomes extend beyond simple cost improvements to enterprise business outcomes that create sustainable performance improvements.

These performance improvements come from a formalized, well-established, provider-driven Enterprise Process Innovation Continuum (EPIC) methodology that uses a dedicated team of Lean and Six Sigma experts for business process re-engineering, simplification, standardization and automation (defined as enabling technologies that “wrap around” client ERPs). Process maturity models (such as those designed using IBM’s WebSphere® Business Modeler) combined with monitoring and measuring of activity levels at a granular level (using enabling tools such as IBM’s
Time-Volume-Capture tool) are built on an integrated analytics framework. This kind of framework underpins the methodology and transforms data into fact-based, actionable insight that drives continuous process improvement as well as strategic and timely decisions. The combination of analytics and Lean and Six Sigma expertise allows an experienced provider to “build quality in” and deliver superior quality and consistency across service delivery. As part of our EPIC methodology, IBM also offers unique capabilities that take the commitment to continuous improvement to a new level, including a common, activity-level process taxonomy, enabling continuous, real-time cross-client comparisons through both internal and external benchmarks. This capability enables you to not only understand and keep pace with your peers but also gain insight that continually elevates your business to compete with the best of the best.

These integrated capabilities from a top third-party provider not only enable faster process consolidation, optimization and automation for end-to-end process improvement but also reduce the risk of implementation. Equally important, they also enable the provider with the multi-client enabling technologies and process-designed delivery models to help clients institutionalize, mandate and enforce standards adoption enterprise-wide. Acting as a true business partner, these capabilities endow the provider with the ability to offer a visionary view beyond the services managed to drive even higher performance and more business value on an end-to-end basis.

III. Changing the way you do business

An alternative delivery model is not just about operational cost savings. An innovative outsourcing provider enables the finance team to shift its focus to higher-value activities within the finance organization and across the enterprise, helping it to become more engaged with the overall business. Without the day-to-day operational distractions of managing transactional activities such as turnover, talent development, IT support, quality of delivery and ongoing continuous improvement, these retained organizations are able to spend more than 70 percent of their time on control and risk, and decision support activities. These activities include supporting, managing, mitigating enterprise risk, measuring and monitoring business performance, and contributing to the enterprise strategy. The study shows IBM’s outsourcing clients that have been able to make this shift in focus away from transactional activities perceive greater execution abilities, have closed their gap in effectiveness, and are executing better to support the enterprise agenda. Significant investments made by IBM to industrialize its service delivery model, with strong business process innovation that accelerates speed to benefit, are enabling clients to extend their reach and perform more effectively far faster than internal shared services can do today.
Recognizing a clear path to top quartile performance, the most forward-thinking organizations are already using at least some enterprise-wide outsourcing—whether it is a straightforward set of transactions such as accounts payable, accounts receivable or broader support for accounting, financial reporting and analyses processes and beyond. Part of the mission statement for an experienced service provider is to become the catalyst for continuous process improvement and adherence. Yet change is never easy, especially when it extends to an entrenched corporate culture. The secret to success in implementing an alternative delivery model hinges on the needs of the client and the provider’s flexibility. Every company is unique: one size definitely does not fit all. Hence, the key to maximize value and best balance risk and flexibility is approaching change in a multidimensional way.

As the approach to managing business processes continues to evolve, the top performer companies look to leverage a shared service model in various forms, whether the solution encompasses a few processes or multiple functions; whether it is global or regional, internal or outsourced—or some combination thereof.

Shared services is a journey, and it is important to understand all the options as new capabilities become available for not only finance and accounting but also a broad range back office functions. In addition, both provider and client need to define short- and long-term expectations and create a set of guiding principles that align to these expectations, all part of a formal change management and governance program.

IV. A new vision of shared services

When talking about a shared services model, it is interesting to note that many companies have been doing their own shared services for years and still not performing as well as their peers. There are several reasons for this, but the study indicates without the mandate for enterprise-wide process and data standardization where it makes sense, the foundation for efficiency and access to high-quality business insight is simply not there. Many organizations, even those already using an internal shared services model, do not have a culture whereby process and data standards are mandated enterprise-wide. Some companies may have process and data standards in place for finance by business unit or geography but not across the enterprise, which is highly correlated to better financial performance. So, if your company falls into these categories, now may be that pivotal moment when you need to consider the full impact to your competitive advantage and seek to understand what those companies who excel in their financial performance are doing.

Companies with global process ownership in place for selected finance activities show greater success in driving enterprise-wide process and data
standards adoption, which also correlated to better financial performance. Global process ownership, which establishes a single point of responsibility and accountability for the consistent design and deployment of processes, is easier to implement with a BPO provider since it is aligned and managed from a centralized organization. The process owner’s goal is to maintain enterprise standards while lowering the enterprise’s decision-making center of gravity. Award-winning governance models have adopted a global process design where the retained organization aligns with their service provider’s process-led organization to support end-to-end procure-to-pay, order-to-cash and record-to-report processes. This enables a joint governance approach that supports a seamless interaction between the client’s process owner and the provider’s delivery process leaders, facilitating execution and ongoing process improvement. With this governance model in place along with a formal, integrated change management program, experience shows that managing change and driving innovation across the business becomes much easier and more successful.

In addition, leading providers are dedicating significant resources to process innovation and technology enablement that will offer a differentiating technology-labor swap that fundamentally changes the dynamics of how transactions are executed today. This kind of technology-based approach enables the client organization access to innovation that strengthens its own customer and supplier relationships. For example, approaching every “manual touch” across the end-to-end process design as an “exception” is the foundation of new innovative process models that increase transaction automation and result in straight-through processing—driving productivities significantly higher. A useful analogy is to think of the advent of the automated teller machine (ATM): the transition to move users toward virtual automated processing of banking transactions required a considerable adjustment period but is now standard operating procedure for most of us. We believe automated processing of financial transactions is precisely this type of scenario. With this kind of business-to-business collaboration enabled through cloud-hosted, multi-client (such as “software as a service” or SaaS) platforms, internal shared services will be challenged to keep pace with the improved performance and value created.

The alternative delivery model will continue to evolve in other ways, including adapting to meet the specific business and strategic needs and cultural mindset of the enterprise and its appetite for change. Emerging capabilities in analytics will continue to play a pivotal role in innovation for clients, driving performance management and risk. IBM understands that analytics is becoming the game changer that is further driving consistency of outcomes across clients. IBM demonstrates its commitment to innovation by continuously enhancing its portfolio of analytics to improve performance. For example, we have embedded predictive analytics capability that shortens days sales outstanding (DSO) into our order-to-cash service, enabling us to deliver additional business value to

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**Innovation proof points**

**Using automation and standards to improve collections strategy**

Automation based on standardization can be used to improve effectiveness in finance processes such as collections. Standards and embedded predictive analytics capabilities can be used to segment customers based on past behavior patterns, enabling targeted collections efforts. Such segmentation can help identify those customer companies most in need of attention.

Basic segments could range from “pay on time with little or no trouble and require little or no focus” to “heavy focus of resources.” Classifying each customer into a segment leads to a clearer view of which customers need attention. This capability—based on standard operational data and advanced analytics—allows an organization to deliver the most appropriate treatment to individual customers using analytics-driven credit scoring that helps improve operational efficiency and working capital.

**Using standards to improve operational performance**

With tools that monitor highly granular activities of finance practitioners and ongoing monitoring of finance activities, an organization could define minimum standards by activity and design strategies to create ongoing improvements and continuously redefined, higher standards.

Information about what practitioners are doing and when can reveal variability in performance, identify low performers, help improve work allocation and distribution, and provide motivation for improved performance. It can also identify high-level performers, which can help highlight best practices that can be leveraged across the team for process improvements.
our clients through increased productivity, improved working capital and reduced profit leakage.

V. The evolving role of the provider

For the individual company trying to anticipate future capabilities and technologies, it faces serious challenges from budget constraints and limited in-house resources and skills. As a top-tier process-led organization, IBM has a dedicated team of innovation experts that stays focused on identifying new sites for global labor resource pools, leading-edge process designs, technologies and methodologies to drive back-office transformation. Whether it is business process enablement delivered through cloud or SaaS platforms, integrated analytics or flexible delivery models, the team looks toward the future to observe trends, identify innovation and then design the future by building the process, the technology and the enablement. These experts drive new ways of performance improvement and innovation—and we share this innovation with our clients. In effect, we become an innovation partner with your business.

Undoubtedly, the provider role will continue to evolve in other ways. In the past, some BPO provider solutions have been a “one size fits all.” To meet the needs of potential clients, the forward-thinking, flexible provider is highly collaborative and designs a solution built on business requirements that works with sensitivity toward the client’s corporate culture. Clients seek a provider who offers accountability for delivery of benefits and not only commits to business outcomes, but promises broader benefits from working capital improvements and spend reductions.

To deliver on this, the leading provider must start with a focus on process simplification, standardization and “wrap around” tool automation. Multiclient enabling technologies offer organizations opportunities to “wrap around” their ERPs to fill in gaps and help harvest the benefits of
ERP investments. In addition, enhanced capabilities are enabled with predictive and behavioral analytics that identify patterns and provide a fact-based, real-time and insight-driven approach to process optimization. These new analytics capabilities enable the company to uncover important, real-time enterprise-wide insights that would be impossible to see within functional silos. On top of this, the provider must also be able to ensure information privacy and security. At IBM, it is an award-winning differentiator where we ensure confidentiality, integrity of information and system availability. We deliver this through:

- Best-in-class security framework and posture
- Flawless execution of security operations
- Extensive usage of security tools
- Excellent compliance results
- Privacy office

Additional characteristics that a provider must be able to offer are global consistency in methodology, process and technology. This consistency is possible only through a unique combination of continuous access to an exceptional global talent pool with domain and industry expertise as well as best practices, process maturity and innovative technology—all strengthened by the thread of embedded real-time analytics capabilities. This is a matter of location since it is critical to determine whether the provider has the global infrastructure in place, up and running, located where you need them to be. In short, a top service provider offers you the combination of a “new intelligence” that combines human cognition with integrated innovative technology—helping you quickly shift from a reactive mode to become a smarter, more predictive and highly integrated global organization.

**Conclusion**

With an economic forecast of long-term volatility, the enlightened CFO is keenly aware of the critical role that the finance organization can play in generating information that helps manage risk and reduce uncertainty. Combined with continued pressure for better control, compliance and performance with fewer resources, these drivers will be compelling factors for change within the finance organization and other back office functions and move them toward a culture that looks to an experienced provider to drive and enforce standardization that leads to better performance. Perhaps most significantly, this kind of partnership frees your back office organizations from many transactional activities and moves them toward a more effective, strategic role.
Evolving your shared services strategy to optimally impact your businesses performance warrants a thorough consideration and assessment of hybrid shared services models, including:

- How does your organization compare with those that have driven enterprise-wide process and data standardization?
- Is your finance organization spending more than 30 percent of its time supporting transactional activities?
- Does your internal shared services organization consistently deliver expected results with outcome commitments?
- How effectively can you drive performance improvement beyond finance?

Your first step should be to assess your progress on enterprise-wide process and data standards and understand how to best leverage a flexible and agile delivery model to help accelerate your path. IBM can work with you to assess then achieve the model that is right for your business. One that is powered by an unmatched combination of significant investment in tools, methodologies, process and industry skills, integrated analytics and best practice process designs—and propels the business to global integration and optimal performance.
Success Story

Unilever Europe: Becoming “One Unilever”

In 2005, Unilever Europe made a strategic decision to streamline the consumer goods company to increase growth and market competitiveness. With 750 Finance employees in 24 countries using 18 ERP systems, along with hundreds of different finance and accounting processes under three separate leadership teams, the organization faced duplication, high cost and varying quality.

As part of a larger transformation program dubbed One Unilever, the company decided to outsource Finance and Administration (F&A) to a provider with a strong track record of successfully managing complex processes. In doing so, the company hoped to realize cost savings, quality improvements and process harmonization. To achieve these goals, innovative technology-based solutions were deployed across the entire scope of F&A, standardizing processes and systems and unifying the firm’s many iterations.

As a result, the company has greater access to information for decision making and continuous improvement, as well as a flexible delivery model that can adapt to changing business needs. These improvements have directly contributed to the €700 million annual savings of the overall One Unilever program. Through its outsourced F&A function, Unilever Europe manages over 3.5 million transactions per year within its accounts payable, travel and expense reporting, fixed assets, general accounting and bill-to-cash processes.

By outsourcing, Unilever Europe was able to accelerate the path to F&A transformation, accomplishing in less than 4 years what has historically taken other companies as many as 10 to 15. In addition, outsourcing has allowed Unilever Europe’s Finance organization to release its energies from transactional processes and focus its expertise on the company’s core business.
For more information

To learn more about how IBM Global Process Services - Finance and Administration (F&A) can enhance your business, contact an IBM representative or visit:
ibm.com/services/process

For more information about the 2010 CFO study, “The New Value Integrator: Insights from the 2010 IBM Global CFO Study” with an assessment tool, visit:
www.ibm.com/cfostudy

Download the related white paper of the 2010 CFO study:
Exploring alternative delivery models for stronger financial performance