

# 10 Minutes on Finance & Accounting Shared Services\*

What you need to know about emerging topics essential to your business. Brought to you by PricewaterhouseCoopers.

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## Are today's centers serving new business priorities?

### Highlights

- Finance and accounting shared services centers are now “mainstream.” Before the downturn, the number of companies deploying FSSCs more than tripled, from 14% in 2005 to 50% in 2007.<sup>1</sup>
- Historically, companies expected FSSCs to reduce finance and accounting costs by 20% to 40% over three to five years.<sup>2</sup>
- Companies with FSSCs seeking to offset the risks of the current downturn should focus on two priorities: realizing near-term savings and efficiencies and making decisions that will yield long-term value.

**Today, companies are trying to balance a new wave of cost-reduction imperatives with long-term planning initiatives. For many executive teams, this focus involves determining exactly what expectations they should place on financial shared services centers (FSSC).**

**The answers aren't always obvious. Companies with a center in place may believe they have already realized—or are well on their way to realizing—the results targeted in the center's original business case. For other companies—including those in the midst of planning a center—recent economic trends demand a careful re-examination of assumptions, dependencies, and implementation schedules.**

**For companies who understand their FSSC-related risks and opportunities, the rewards, not just now but later, could be significant.**

**Why financial shared services centers deserve a closer look right now**

- 1. The stakes are higher.** Financial shared services centers are no longer focused on just reducing the labor costs associated with non-core, back-office processes. Businesses widely recognize that FSSCs are one of the best ways to streamline many core and support finance and accounting functions.
- 2. The trailblazers have returned—smiling.** Global leaders such as HP, Procter & Gamble, and GE are already using FSSCs, with well-publicized success. Many SSC experts believe that these companies have, in effect, “lit the path.”
- 3. The current downturn changes the calculus.** Pursuing cost-savings strategies and other FSSC objectives in the context of worldwide economic volatility has opened up a new set of risks and opportunities.

<sup>1</sup> PricewaterhouseCoopers and The Fuqua School of Business at Duke University. 2008. *2007-2008 Offshoring Research Network Survey*.

<sup>2</sup> Ibid.

## At a glance

### The old view of shared services initiatives:

- SSCs were focused principally on back-office, non-core IT activities.
- SSCs were typically one-off, tactical initiatives undertaken at the functional or business-unit level.
- Standardized service levels were not available, specific to a business unit or function, or set by the corporate office.
- Cost reduction was the primary objective—achieved through process consolidation, headcount reduction, and/or labor cost arbitrage.
- SSCs were considered most suitable to large companies.
- The CIO, not the CFO, was often the executive champion of a shared services initiative.

### A new approach to shared services initiatives:

- As a mature and proven business strategy, SSCs are more likely to be established for strategic, decision-making functions.
- Companies are more likely to launch an SSC in the context of a broader, company-wide sourcing strategy.
- Tailored service levels are set by internal customers through service-level agreements.
- Objectives extend well beyond cost savings to other strategic payoffs—such as better reporting, increased control and transparency, and an improved ability to respond to market changes.
- SSCs are increasingly attractive to mid-sized companies too.
- Shared services initiatives are collaborative efforts. Executives from across the C-suite help establish the strategic direction.

## Fragmented processes can be dangerous—especially now

The same business rationale driving the increase in finance and accounting (F&A) shared services centers during a period of robust economic growth is even more relevant now as markets continue to slump. Common inefficiencies become less tolerable in a downturn.

For many companies, F&A activities are still conducted separately in multiple locations across business units and regions. Key processes are often redundant and inconsistent across the organization.

Supporting technologies vary and are frequently incompatible with one another. And headcounts are high—an expensive result of having people with the necessary skills present at every location.

These factors inflate costs, create unnecessary complexity in processes and the organization, delay reporting, and mount obstacles to ensuring company-wide compliance.

They also tie up valuable resources and prevent the finance and accounting departments from focusing on more strategic, value-adding tasks.

During an economic downturn, inefficient F&A operations can present an array of new and potentially game-changing risks:

- Mandated headcount reductions can result in F&A skill shortages in some or most locations
- Reporting delays and compliance challenges at the business-unit level can prevent the company from addressing problems quickly
- Companies seeking to divest non-core businesses may realize a lower return on the transaction if they cannot prepare accurate, independent financial statements in a timely manner
- Companies acquiring other businesses can undermine transaction value if they struggle to integrate the acquired company's F&A processes with their own

## Target near-term value—and quicker returns

Companies with an **existing** finance and accounting shared services center can realize cost savings and efficiencies within 30 to 90 days—while mitigating a shifting set of risks. Plans for rapid cost savings might include:

**Further simplifying core F&A processes.** Customization retained since the center was established may no longer be desirable—or defensible in the current business climate.

**Partnering with internal customers.** Business units may be newly amenable to greater standardization in service-level agreements—particularly if these changes yield additional savings.

**Rebalancing the distribution of talent between headquarters and center operations.** Reductions in operating budgets and overall F&A resource levels can sometimes change the rationale behind where certain skills should reside.

Companies in the process of **planning an FSSC** should revisit their original analyses, assumptions, and timelines, particularly with respect to two foundational issues:

**Validating the operating model.** In some cases, plans for multiple centers of excellence or regional clusters no longer make the best business sense: a review may prompt a shift to a single, centralized global location. However, while the one-facility model may be the most cost-efficient, it is also the most demanding to execute because it requires the most extensive operational restructuring.

**Re-thinking the staging strategy.** Sometimes, companies that planned to standardize in-country F&A processes before consolidating them in a center are now electing to do the reverse. They're combining disparate processes in one center first in order to capture labor savings earlier—and then standardizing these progressively over time. Companies are often starting with rules-based transactions (such as accounts receivable) and then standardizing more analytical, knowledge-driven tasks over time.

## An evolutionary leap in the right direction

Undertaking a downturn-triggered review of F&A shared services initiatives and operations often uncovers a compelling list of tactical steps yielding short-term gains. But every near-term opportunity should also, in some way, advance long-term business objectives.

To pursue long-term advantage, keep the following considerations in mind.

### Strategy matters

Companies that adopt a wide-scale offshoring strategy before launching an F&A offshoring initiative achieve significantly higher savings, according to a recent survey.<sup>3</sup> These companies are also more likely to realize other key organizational benefits—such as increased productivity, competitiveness, and organizational flexibility, as well as better access to qualified personnel.

### Build agility

Adjusting an F&A shared services strategy to respond to the downturn makes good business sense. But what matters in the long run is whether a company can

establish an FSSC that captures the balance between standardization and flexibility that, step by step over time, yields a new core competency: agility. The FSSC strategy should allow the company to refresh its operating model based on changing market conditions.<sup>4</sup>

### Focus on the full set of long-term benefits—not just the cost savings

Consider these examples:

- A large, global manufacturing company is converting its FSSC cost center into a profit center by offering F&A services to other companies.
- An American industrial products company with operations in 18 countries discovered that establishing a single, centralized FSSC in Shanghai, China, significantly improved financial controls, reduced risk, and provided the CFO and other decision-makers with “one financial view” of international operations. The improved transparency into the business has allowed the company to adapt to market changes more quickly.

<sup>3</sup> Ibid.

<sup>4</sup> PricewaterhouseCoopers. 2008. *How to Build an Agile Foundation for Change*.

## Key practices to keep in mind

As you realign finance and accounting shared services operations or initiatives, ask your teams to pay close attention to the lessons learned by other companies further “up the path”:

- 1. Make the center compete with third parties for in-house business.** Set up and maintain the center as if it was an independent, outsourcing service provider. A major consumer products company has established its FSSC as a separate legal entity. The company is using service-level agreements. And it’s ensuring that terms, policies, and pricing are consistently competitive with third-party offerings.
- 2. Keep business-unit leaders and other key stakeholders deeply involved.** Don’t underestimate the level of change that teams need to undergo to make the center successful. A global office products company is well aware of the extent to which cultural barriers to centralization can undermine the center’s goals. The organization actively engages all stakeholders in ensuring the center’s ongoing re-alignment with their business needs.
- 3. Give the center’s director both authority and responsibility.** Why do some centers fail? According to a recent PwC survey, one key factor is that directors often feel disconnected from headquarters and the customers they serve. Since they’re charged with making extensive changes in company structure, give them the authority and support required to put the changes in place and continually realign them with shifts in the company’s strategy.
- 4. Insist that the director be someone with exceptional people skills.** The center’s ability to deliver value during the downturn and beyond will, in many respects, hinge on the director’s ability to forge relationships with operations managers and other key stakeholders.
- 5. Link reward systems to end-to-end process excellence.** One CFO of a large company bases a portion of bonuses awarded to key FSSC employees on the performance of the complete purchase-to-pay process, for example, rather than merely accounts payable. He believes this tactic sits at the heart of his center’s success in delivering high quality service to its in-house customers.

## Upcoming 10Minutes topics:

### **Top concerns for boardroom directors**

After a year of unprecedented challenge and change, directors are revisiting their oversight of risk management and corporate culture. 10Minutes looks at how the ongoing credit crisis affects these and other corporate governance issues, sizing up the potential impact on your business.

### **Bolstering corporate liquidity**

As the cash crunch continues, companies can shore up liquidity with both cash management strategies and tax mitigation techniques. 10Minutes explores how corporate managers—even while using these short-term tools—also need to develop a long-term liquidity strategy.

Other issues in a collection of 10Minutes to help your company manage through the downturn and, at the same time, position itself better for the long term:

- Rethinking pivotal talent
- Sustainable cost reduction
- Making divestitures successful
- Realizing ERP value

## How PwC can help

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