Moving Up the Maturity Curve of Financial Shared Services

How Leaders Now Frame the Challenge

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A CONSTANT HUNT FOR IMPROVEMENT

How can you tell if a financial shared services organization is well on its way up the maturity curve? For a start, the leadership team looks beyond cost reduction. Surely, there is a constant hunt for cost-efficiency, but there is also talk of process innovation and value-adding capabilities.

A good example is Citigroup. Arindam Mukhopadhyay, the executive vice president who manages global financial reporting operations for the sprawling financial institution, summed up this view in a speech he gave at a conference on Finance Transformation, produced by the Shared Services Outsourcing Network (SSON) last September. “Finance is not a department of accountants and analysts but a series of processes that culminates in stewardship and decision making. For this reason, building a shared services model cannot be a cost-only play.” His view is shared by other global players working to ensure their respective shared services units can achieve productivity gains every year and develop increasingly mature capabilities.

The leaders view process innovation as a never-ending quest, with no anticipated end to productivity gains or expectation of diminishing returns. “My incentive compensation is tied to a 5 percent productivity increase, every year, in perpetuity. And I’m quite happy with that,” said a senior finance executive who runs a top-notch global business services group in an interview with APQC.

In all, the executives who manage these ever-evolving shared services centers say their roles are becoming more strategic. They aim to:

- generate and disseminate financial intelligence across their organizations in order to drive strong decisions concerning the allocation of capital,
- continuously pursue opportunities to reduce the cost of core transaction processing, and
- improve internal controls and rules compliance in an era of regulation.

HOW DID WE GET HERE?

Large, global organizations have, over the past decade, made clear strides in reducing the cost of financial management operations by adopting a shared services operating model. Figure 1 below, sourced from APQC’s Open Standards Research, illustrates that organizations with shared services in APQC’s accounts payable dataset have a significantly lower cost of accounts payable per $1,000 revenue.

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1 The shared services model calls for streamlining and consolidating transaction-based activities, such as invoice processing and payment or billing, in regional or global service centers.
Some have used the single/centralized shared services model to deliver services to business units around the world. Others have developed hybrid models that use a centralized processing center as well as multiple, region-oriented shared services centers. The latter approach is often chosen to allow an organization to cope effectively with varying languages, cultures, and business practices.

In addition, some organizations have blended service delivery from so-called “captive” financial management shared services, which are company-owned service centers, and shared services owned and operated by a third party. Captives and third-party centers may be located on-shore, near-shore, or offshore.

**COST REDUCTION IS NOT ENOUGH**

The recent recession, along with ongoing economic uncertainty worldwide, has raised burning questions in boardrooms and C-suites.

- How can we improve our ability to predict and manage the strategic risks to our business plans?
- How can we deliver sustainable, profitable growth to investors when revenue growth is spotty in first-world countries and inflation risk looms in emerging economies?
- How can we do a better job of protecting profits from the growth we do manage to capture?

How well-equipped is finance to answer these questions? Concerns were raised in a white paper prepared by CFO Research Services and in collaboration with Crowe Horwath\(^2\). Board members who

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\(^2\) “Getting Beyond Good Enough: Higher Value Reporting for the Board,” a March, 2010 report prepared by CFO Research Services in collaboration with Crowe Horwath LLP.
were surveyed expressed the view that finance excels in its traditional scope—GAAP financial reporting and audit review reporting—but disappoints when it comes to business analyses, especially:

- operational performance reporting,
- business performance forecasting,
- risk assessment and related reporting, and
- risk tolerance exposure reporting.

Nothing says an organization must include its financial shared services center in higher-order business analytics. However, the findings from a recent APQC survey\(^3\) indicate that the next-generation financial shared services center will have a seat at the table. As shown in Figure 2 below, the top five goals for financial management shared services (in declining order of importance, with the top possible rating of 5 signifying “extremely important”) are to:

1. provide a proper mix of analytics and efficient transaction processing;
2. drive yearly productivity increases in perpetuity;
3. empower, train, and motivate people to achieve continuous improvement;
4. make the center a source of valuable decision support to the business; and
5. align financial management shared services process measures with organizational strategy.

![Figure 2](image)

**THE DESIRED ANALYTICAL YIELD**

One example of useful analyses that can emanate from financial management shared services involves payment patterns of customers that make purchases from multiple operating units. The goal would be to take a granular look at the payment behaviors of the most valuable customers, perhaps the high-volume buyers versus the least valuable. Such analyses could lead to changes in the ways trade-credit policies are applied, with the low-value customers automatically tagged for strict policy enforcement, perhaps involving automated work flows and alerts if bill payment patterns start to slip. The high-value

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\(^3\) “Financial Shared Services—Framing Your Next Generation Capabilities,” an APQC survey conducted in September 2010.
customers can be accommodated with personal calls by dedicated account managers to quickly resolve any billing discrepancies or address other causes of payment deterioration, when necessary.

Processes of this sort can be optimized with automation. For example, one top performer in a study of financial management shared services now being conducted by APQC is a leading, global manufacturer of glass bottles. The center that manages the order-to-cash process does analyses along the lines described above—enabled by specialized analytical software. Moreover, the team works in a continuous improvement mode by applying Six Sigma principles and disciplines to accounts receivable and other financial management processes related to working capital management. The result is tight control over the amount of working capital that is tied up in accounts receivable, along with effective collaboration with the organization’s most valuable customers.

There is no end to the types of value-adding business analytics that can be generated by a top-notch financial management shared services center. That aspiration is held by people such as Helwett-Packard’s Jeff Fiorini, who is the Manager of P2P Process Transformation. He shared his vision of internal FM shared services process maturity at the SSON’s September conference.  (Figure 3, below).

![FM Process Evolution](image)

<table>
<thead>
<tr>
<th>Stage One: Cost Reduction</th>
<th>Stage Two: Increase Value</th>
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<tbody>
<tr>
<td>Decentralized</td>
<td>Tech Enablement</td>
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<td>Regional SSO</td>
<td>Process Optimization</td>
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<tr>
<td>Global SSO and Processes</td>
<td>Adding Business Value</td>
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Figure 3

Today, there is flurry of activity aimed at evolving the procure-to-pay process, especially in a shared services environment. Common goals are: drastically reducing the volume of paper invoices, compressing the time required to route invoices for approval and payment, increasing the volume of “first-time PO/invoice matches,” and more robust self-service solutions to enable suppliers to access all the information they seek without human intervention on the buyer’s part.

One compelling aspect of current process innovation: automating the validation of invoices at the front end of the invoice management process. Computers would read digitized invoices and trigger steps that resolve errors and obtain missing data. Conceivably, by the time most invoices arrived in accounts payable, they would already be in perfect condition. The people in AP would work on the exception items, not the run-of-the-mill items. By reducing touchpoints and the time spent by finance and
accounting staff on mundane paperwork and by hastening the invoice-turnaround cycle, this organization would truly be raising the bar for both process efficiency and effectiveness.

In sum, superior performance in the area of cost control and cycle time empowers financial management shared services centers to move further up the curve. The mature center leverages its people properly and provides value-adding services, including business analytics, to internal and external business partners.

ABOUT APQC

For more than 30 years, APQC has been on the leading edge of improving performance and fostering innovation around the world. APQC works with organizations across all industries to find practical, cost-effective solutions to drive productivity and quality improvement. We are a member-based nonprofit currently serving more than 500 organizations in all sectors of business, education, and government.

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