



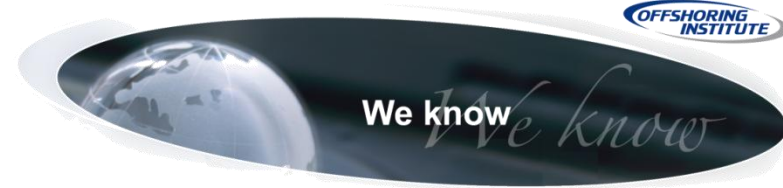
# Transforming Management Accounting

## Designing the Finance Function of the Future

Soeren Dressler, PhD – Professor of International Accounting and  
Director Offshoring Institute, Berlin

Dubai, May 5-7, 2008

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# Agenda

- Overview: Trends in F&A Optimization
- Transforming Elements of the F&A Function
- The Role of Technology
- F&A Organizational Models of the Future
- Finance Transformation – Migration and Business Case

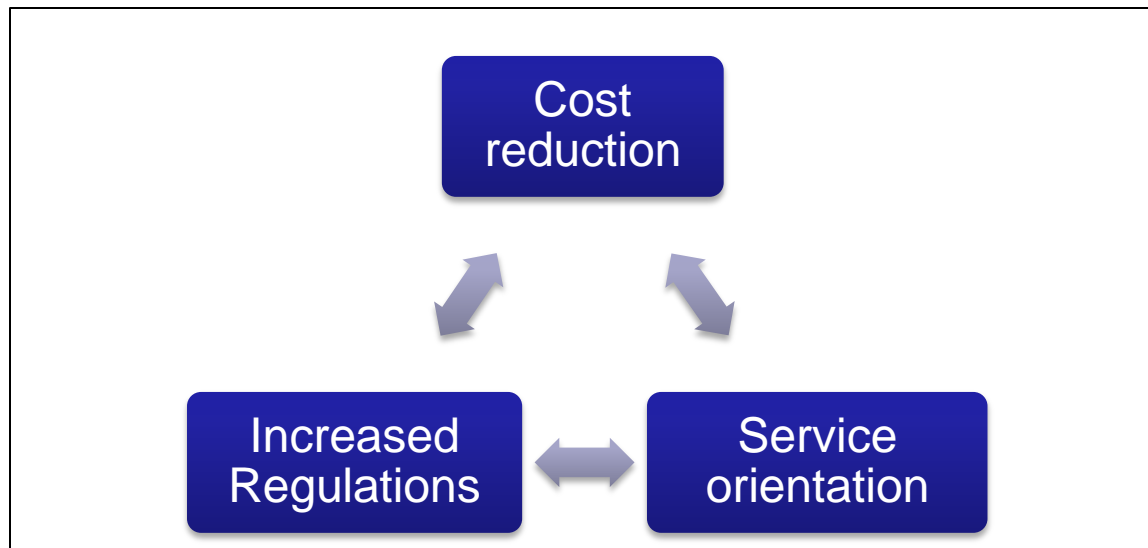
# OVERVIEW - TRENDS IN F&A OPTIMIZATION

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# Trends in F&A optimization

- Pressure to optimize back office functions is rising
- Three main trends forcing the transformation projects:



# Trends in F&A Optimization

## ➤ Cost reduction

### In the 1990s

- Focus on optimizing operational processes
- Implementing various instances of ERP systems
- Global companies: every local entity had own F&A department
- Due to different requirements - F&A processes and systems varied widely

### Today

- Process harmonization/reengineering key driver for transformation
- New technologies and integrated systems globally
- BPO to achieve cost objectives quicker

# Trends in F&A Optimization

## ➤ Quality improvement/ Service Orientation

- More intense competition requires faster and more flexible service processes
- Growing companies with different divisions challenge existing group reporting systems
- Integration of new acquisition requires standardized processes, systems and governance structures
- Using KPI based reporting systems and incentive wages force reliable and standardized processes (and results)
- Bigger units leading to a higher level of automation

# Trends in F&A Optimization

- **Increased legal regulations and reporting demands**
  - Since 2006 publicly listed companies within the EU need to state group reports according to IFRS
  - However, local reports still need to be created in national reporting standards (e.g. for tax purposes)
  - New regulations such as Basel II or Solvency II cause companies to improve and extend their risk control and reporting systems

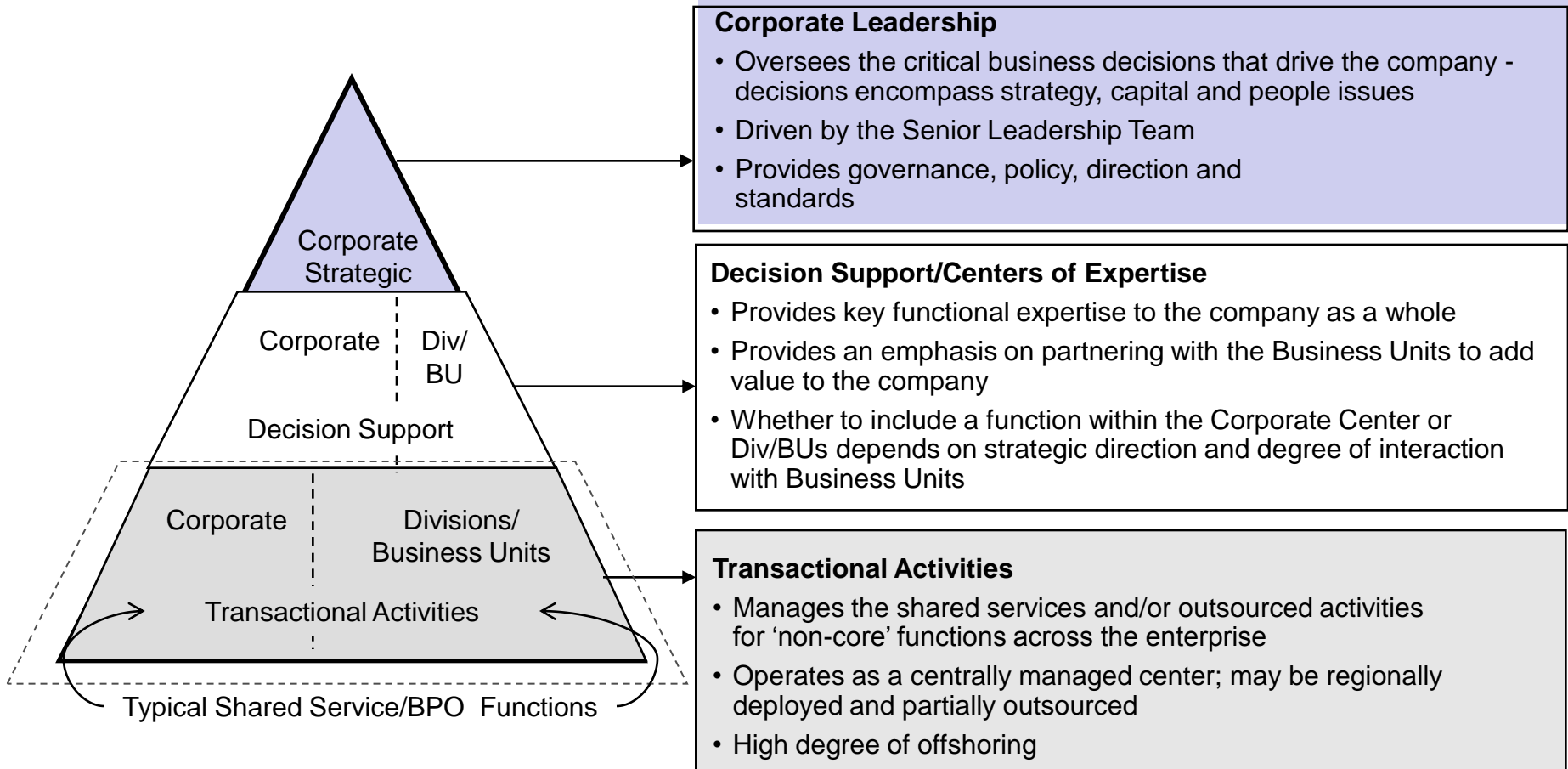
# TRANSFORMING ELEMENTS OF THE F&A FUNCTION

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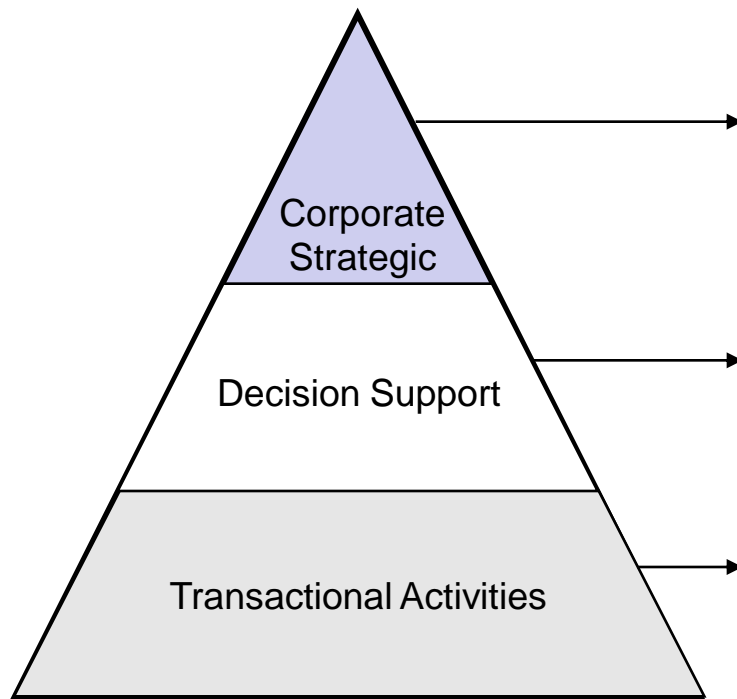
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# Elements of the F & A Function



# Elements of the F & A Function

Illustrative

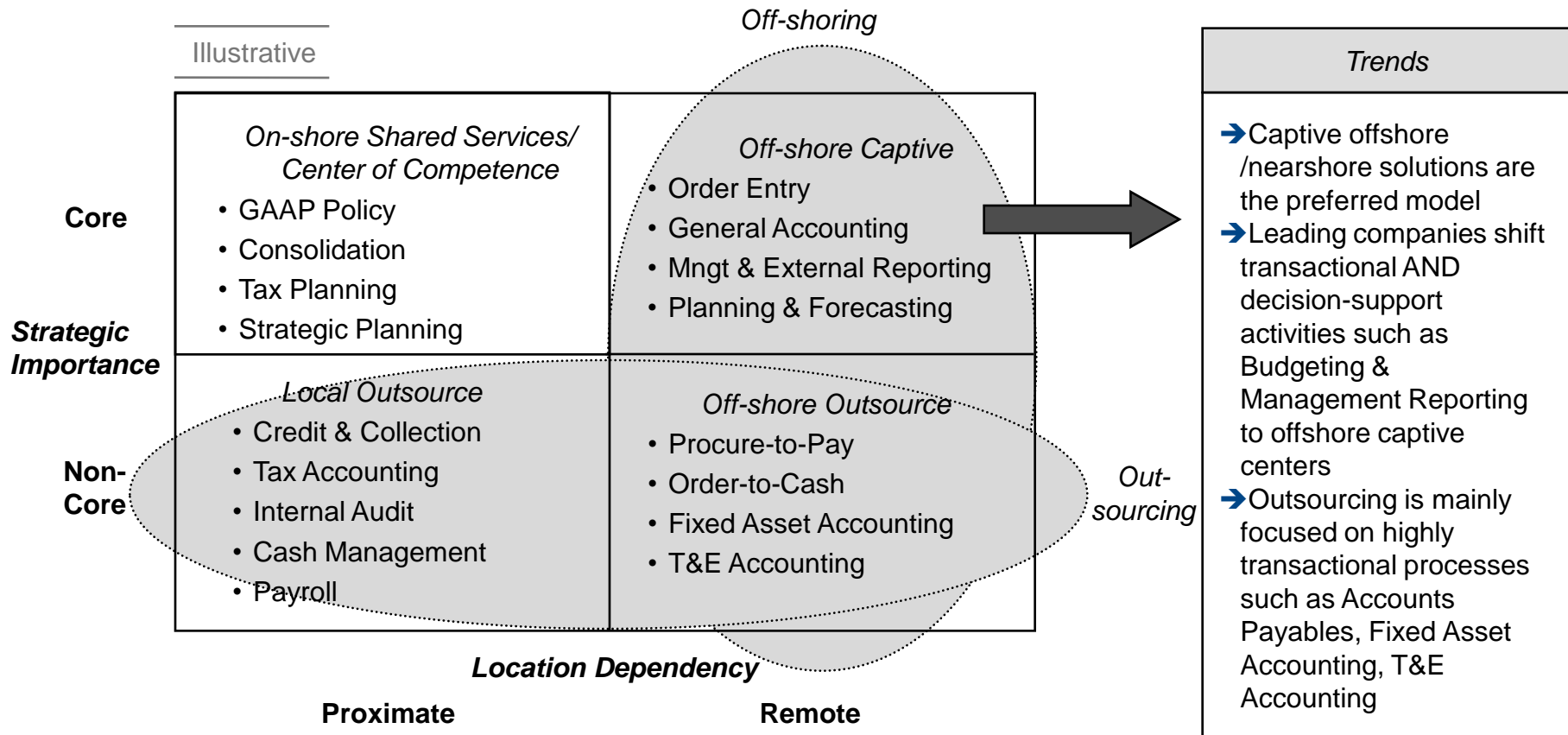


SSC = Transactional activities; potentially performed by Shared Services

F&A Processes	SSC suitability
Business / Financial Risk	5%
Treasury	5%
Internal Audit	5%
Tax	15%
Planning / Forecasting	15%
Strategic Planning	5%
Product Costing	40%
Management Reporting	30%
Performance Analysis	15%
Procurement –to-Pay	90%
Order-to-Cash	85%
Record-to-Report	70%
Time & Expense Reporting	95%
Asset Management	95%

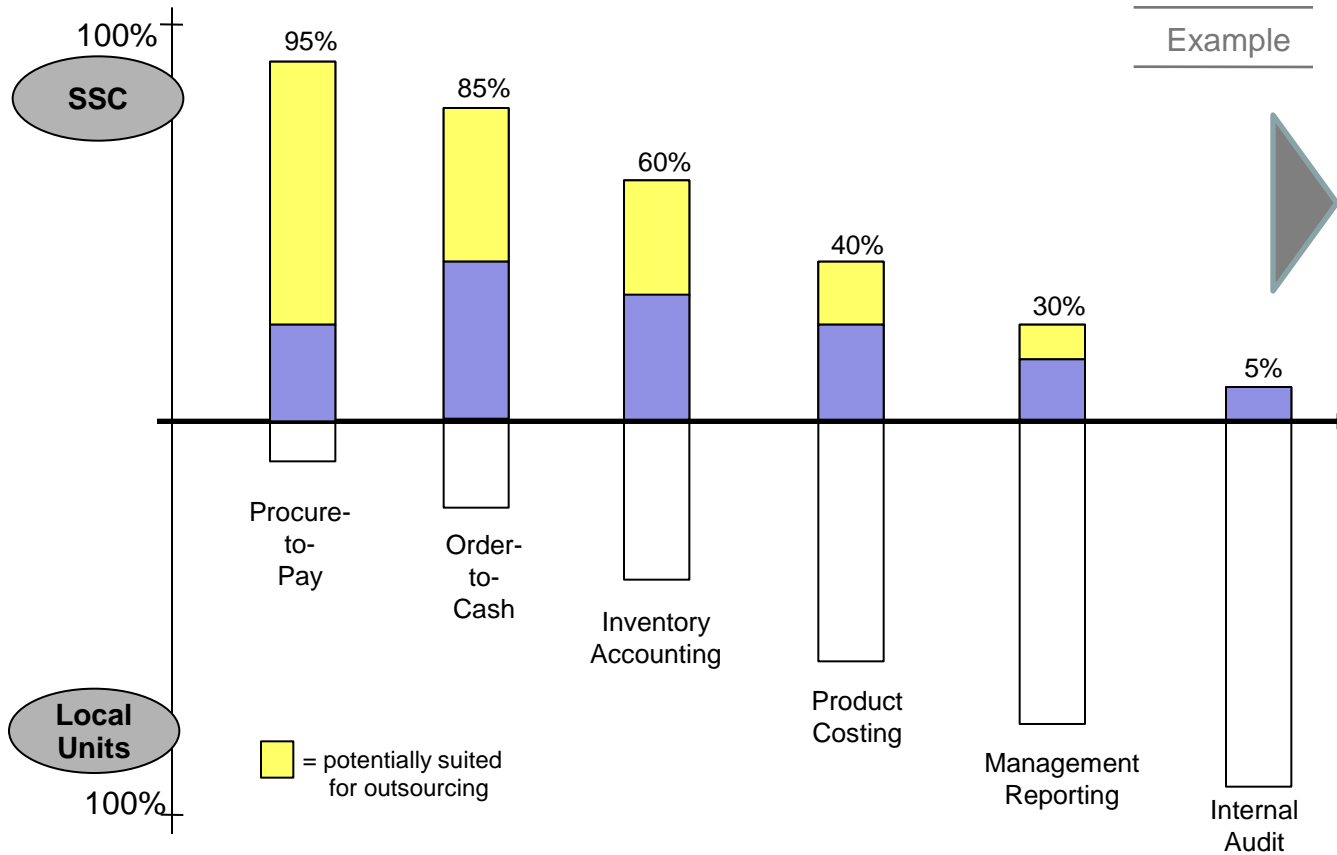


# Elements of the F & A Function





# Elements of the F & A Function



Example



Dependent on the process type large parts of processes can be and are outsourced these days

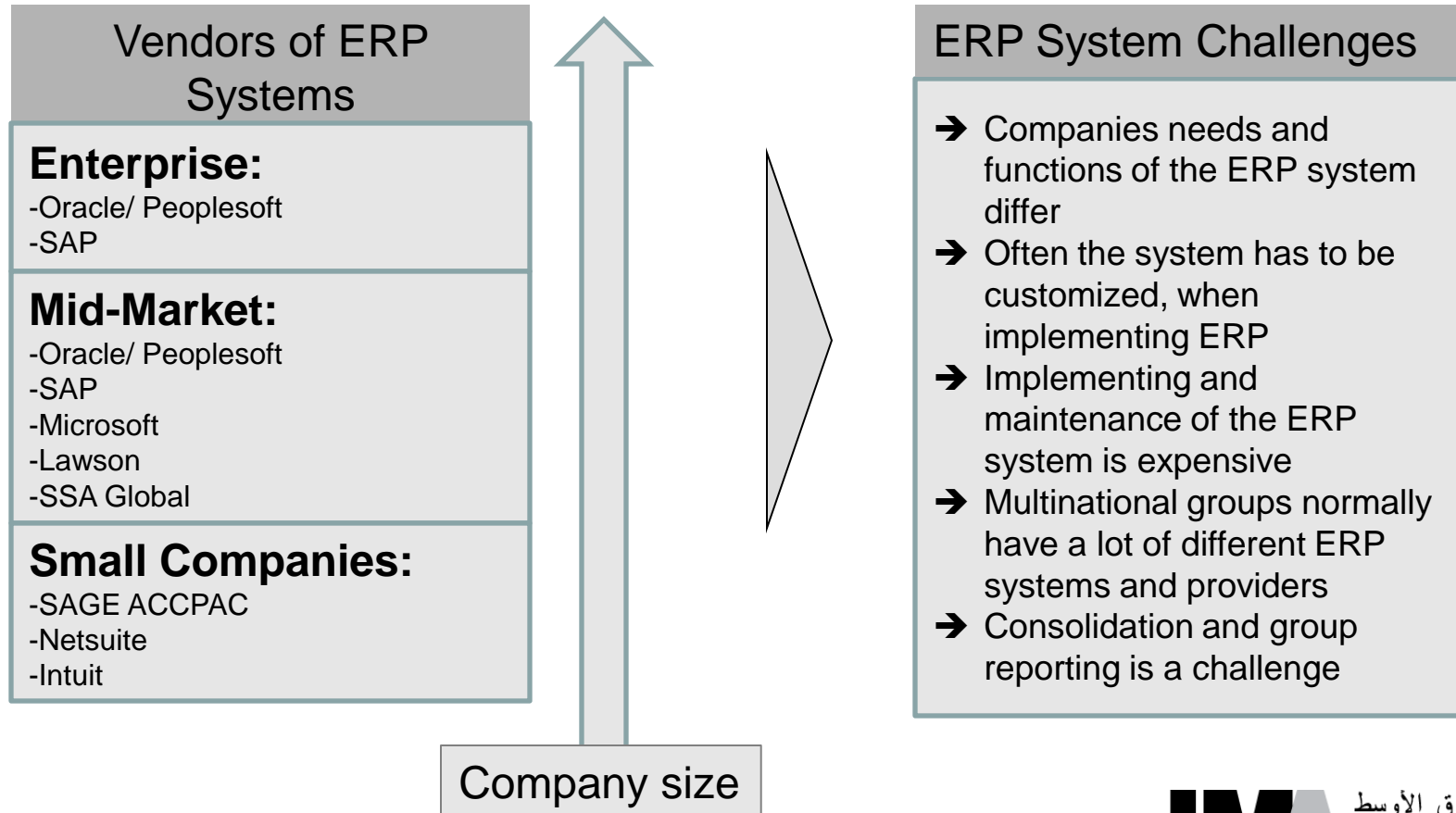
# THE ROLE OF TECHNOLOGY

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# Technology Tools

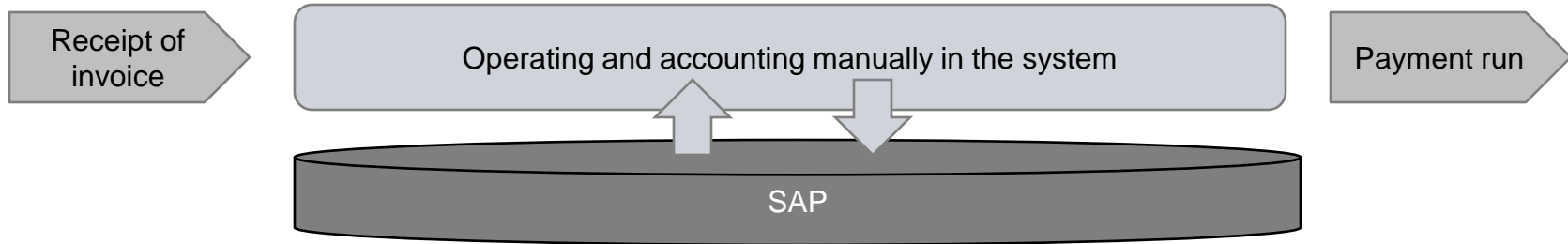
## ➤ Facts about the ERP market:



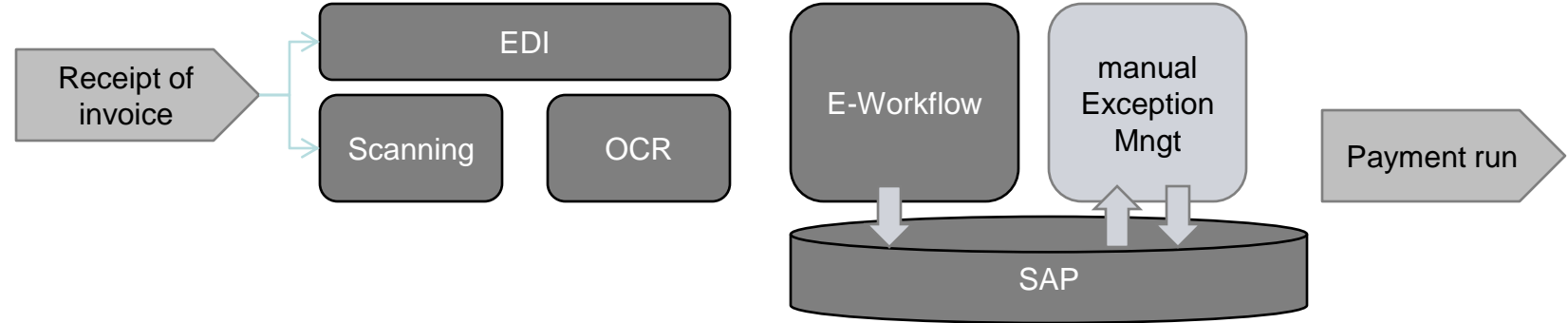


# Technology Tools

Example: Accounts Payable – manual solution



Example: Accounts Payable – automated solution





# Technology Tools

**Offshoring support for Management Accounting through effective coordination with lower costs and improved quality**

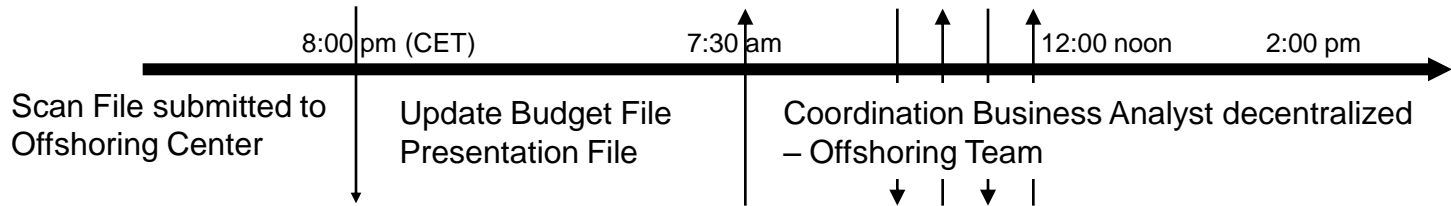
## Case Study Europe/India

### Business Analyst decentralized

- Budget Meeting
- Modification of Key Assumptions
- Modification of Revenue Plan/ Forecast Adjustments



Budget Presentation  
Online Helpdesk  
Offshore



### Business Analysis Team Offshore

- Incorporation of Budget Changes
- Re-Consolidation of Corporate Budget
- Scenario Analysis of Revenue Model
- Sensitivity Analysis ROCE



#### Team Offshoring

- 1 Team Leader (PhD)
- 2 Senior Analysts
- 1 Senior Analyst (late shift)
- 1 Junior Analyst

# Technology Tools

- **Other technology tools**
  - Broadband internet
  - Mobile access
  - Business Intelligence Systems
  - Cloud computing
  - Virtualization
  - Web 2.0 elements
  - ...

# F&A ORGANIZATIONAL MODELS OF THE FUTURE

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# Organizational Models

Decentralized / Fragmented	Centralized/ In-house	Shared Services/ In-house	Off-shore
<ul style="list-style-type: none"> <li>• Specific solutions for local units</li> <li>• Processes are inefficient</li> <li>• Different quality levels</li> <li>• different Service Levels</li> <li>• Functions allocated regionally</li> <li>• No strict/strong cost management</li> </ul>	<ul style="list-style-type: none"> <li>• In general efficient</li> <li>• In general effective – but no differentiation of (internal) client categories</li> <li>• Service levels are standardized</li> <li>• No or only global Charge Back mechanism</li> <li>• Indicators cover cost management</li> </ul>	<ul style="list-style-type: none"> <li>• Functions perform efficiently and effectively</li> <li>• Ambitious and transparent Service Levels based on bilateral arrangements</li> <li>• Responsibility for the performed services</li> <li>• Progressive and client accepted Charge back principle based on Service Level Agreements (SLA)</li> </ul> <p><b><i>Most companies today</i></b></p>	<ul style="list-style-type: none"> <li>• High level of Efficiency and Effectiveness</li> <li>• Significant cost savings (labor arbitrage)</li> <li>• Access to qualified labor pool</li> </ul>
			Outsource
			<ul style="list-style-type: none"> <li>• Professional in-house management combined with expertise of the Outsourcing vendor</li> <li>• Benchmarking based price scheme</li> <li>• Negotiated SLA</li> <li>• Company concentrates on core competences</li> </ul>

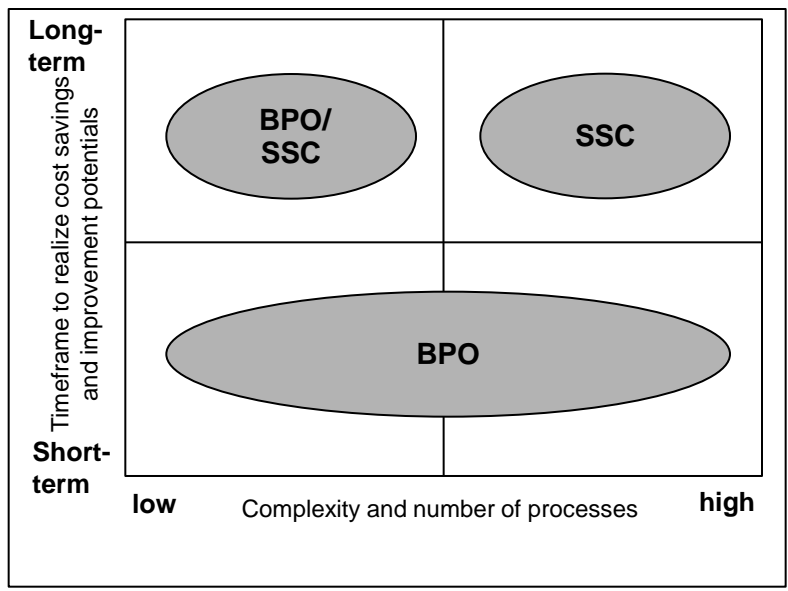




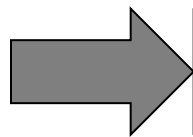
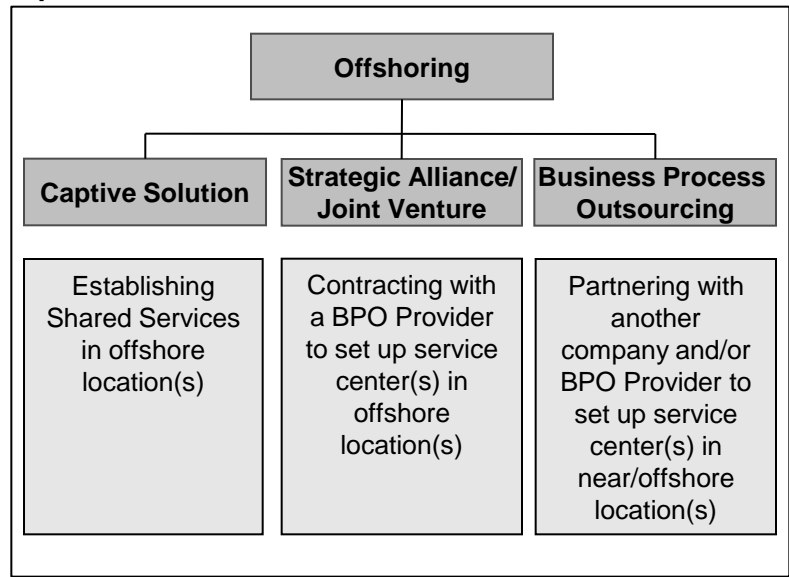
# Organizational Models

Methodology

Decision matrix SSC versus BPO



Options to realize Offshore Solutions



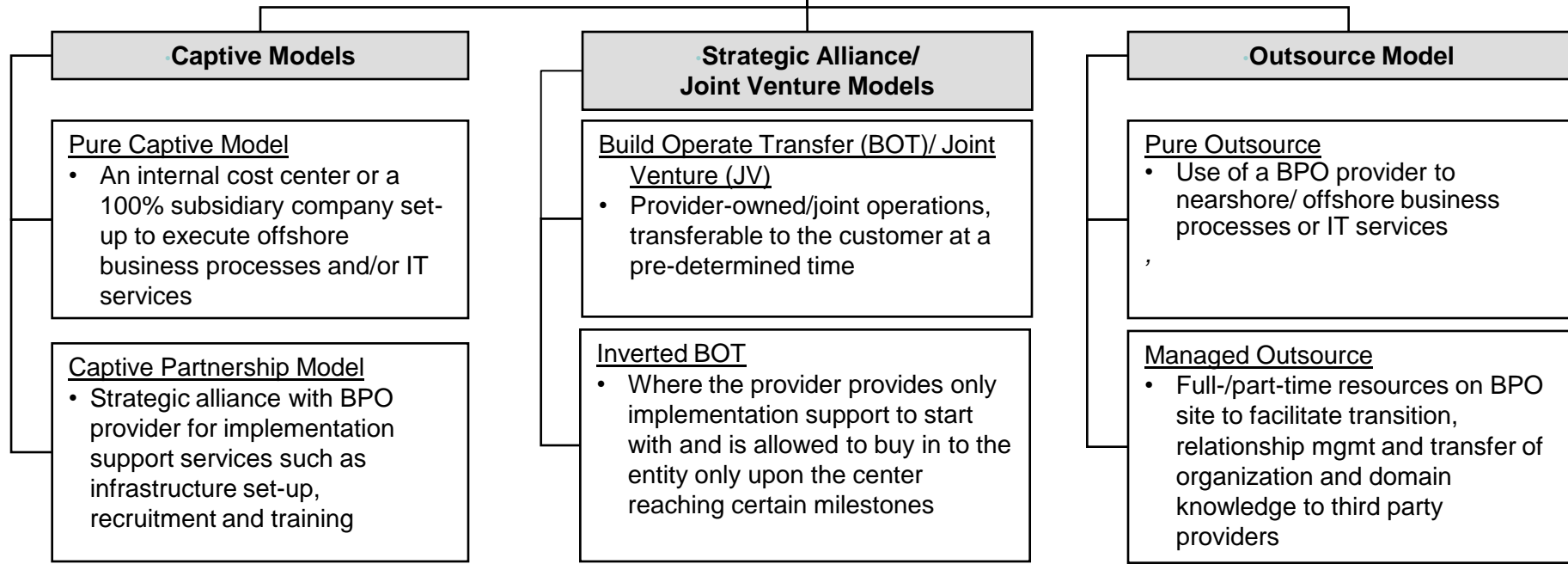
However, the decision itself requires consideration of multiple influencing factors. Also, opinions of senior leaders will very likely vary as make-or-buy decisions for the back office have a strong company political dimensions → outsourcing is widely perceived as loss of power



# Organizational Models

## Nearshore/ Offshore Business Models

Illustrative



Nearshore/ Offshore models can be a combination of the concepts above – models to be applied can vary by business unit, region, location, function, and process

# FINANCE TRANSFORMATION - MIGRATION AND BUSINESS CASE

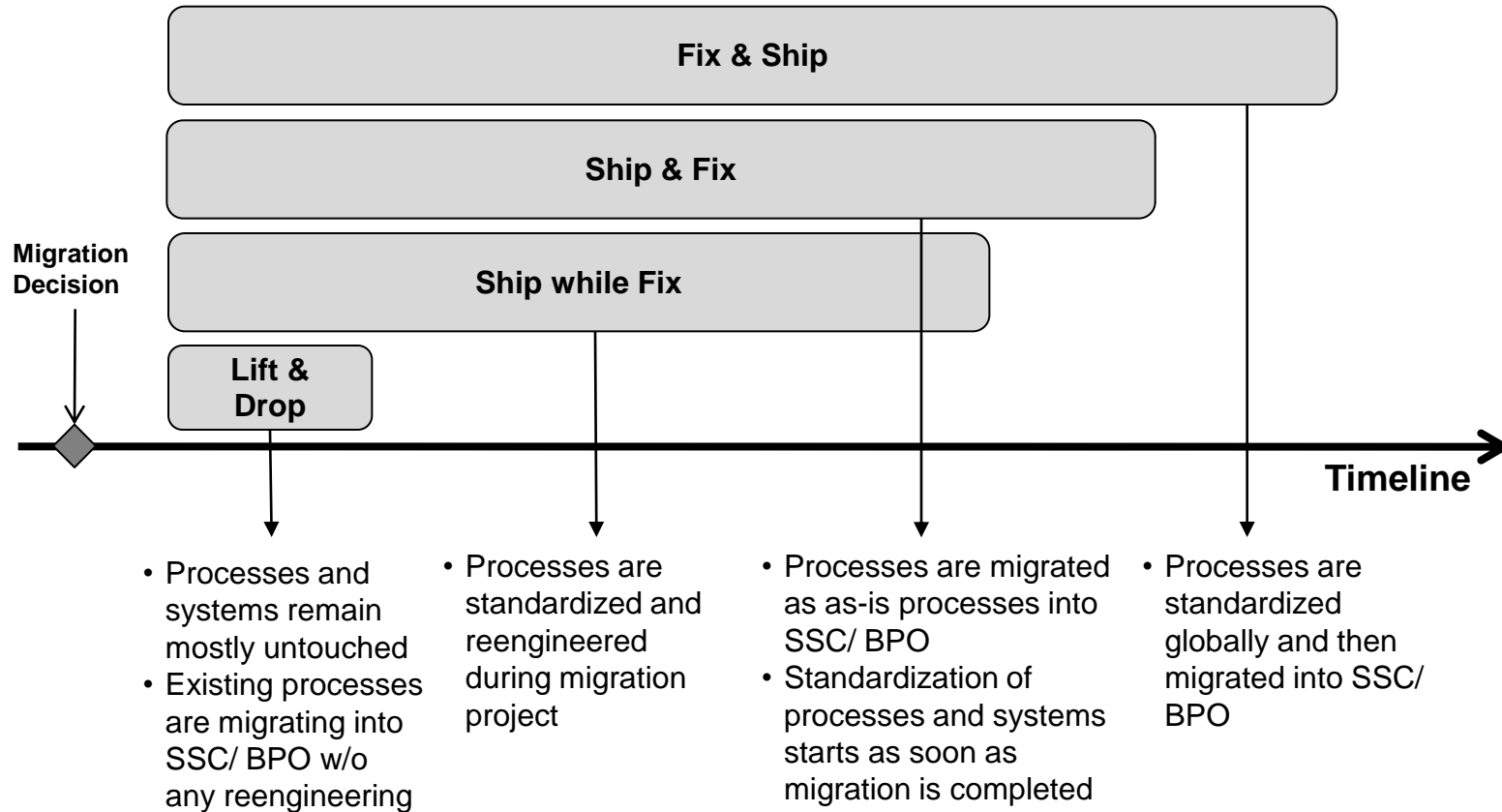
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# Finance Transformation

## Migration Approaches

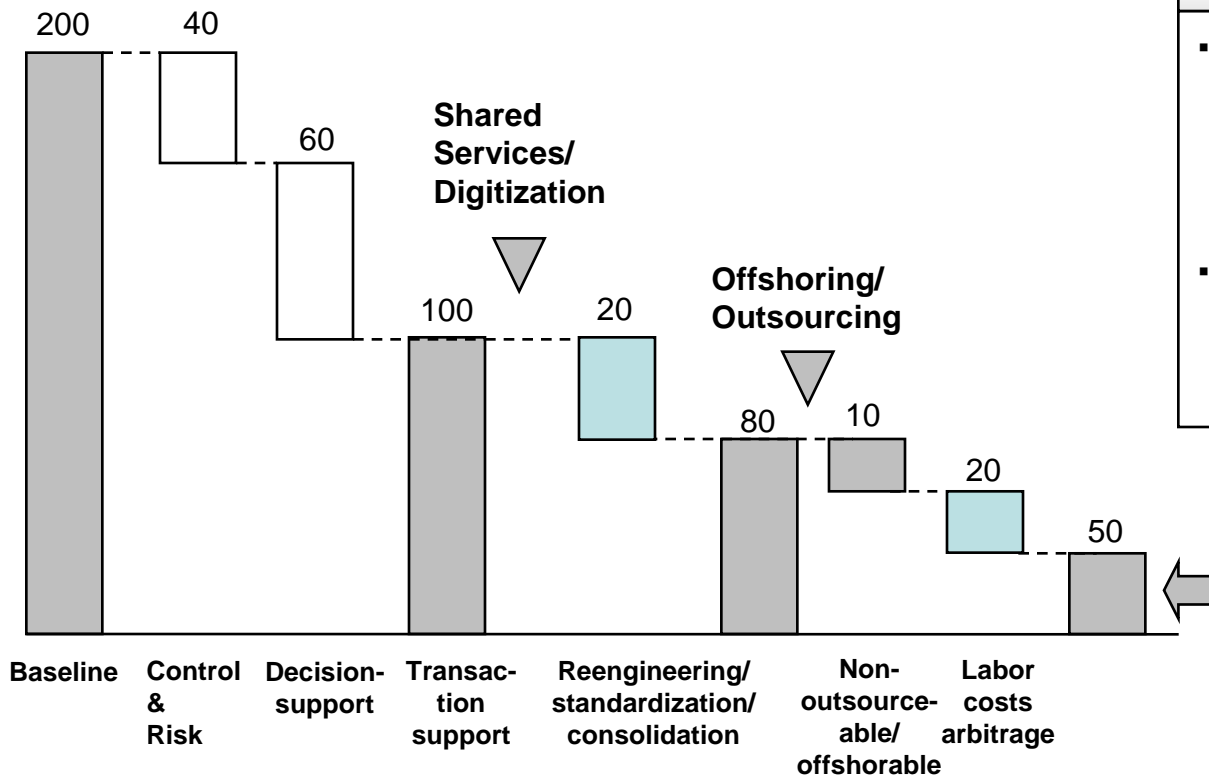




# Finance Transformation

Finance & Accounting spend (\$ million)

Illustrative



Rationale
<ul style="list-style-type: none"> <li>Corporate and Decision-Support Activities are not considered for Shared Services</li> <li>Reengineering and lower labor costs are the major cost advantages</li> </ul>

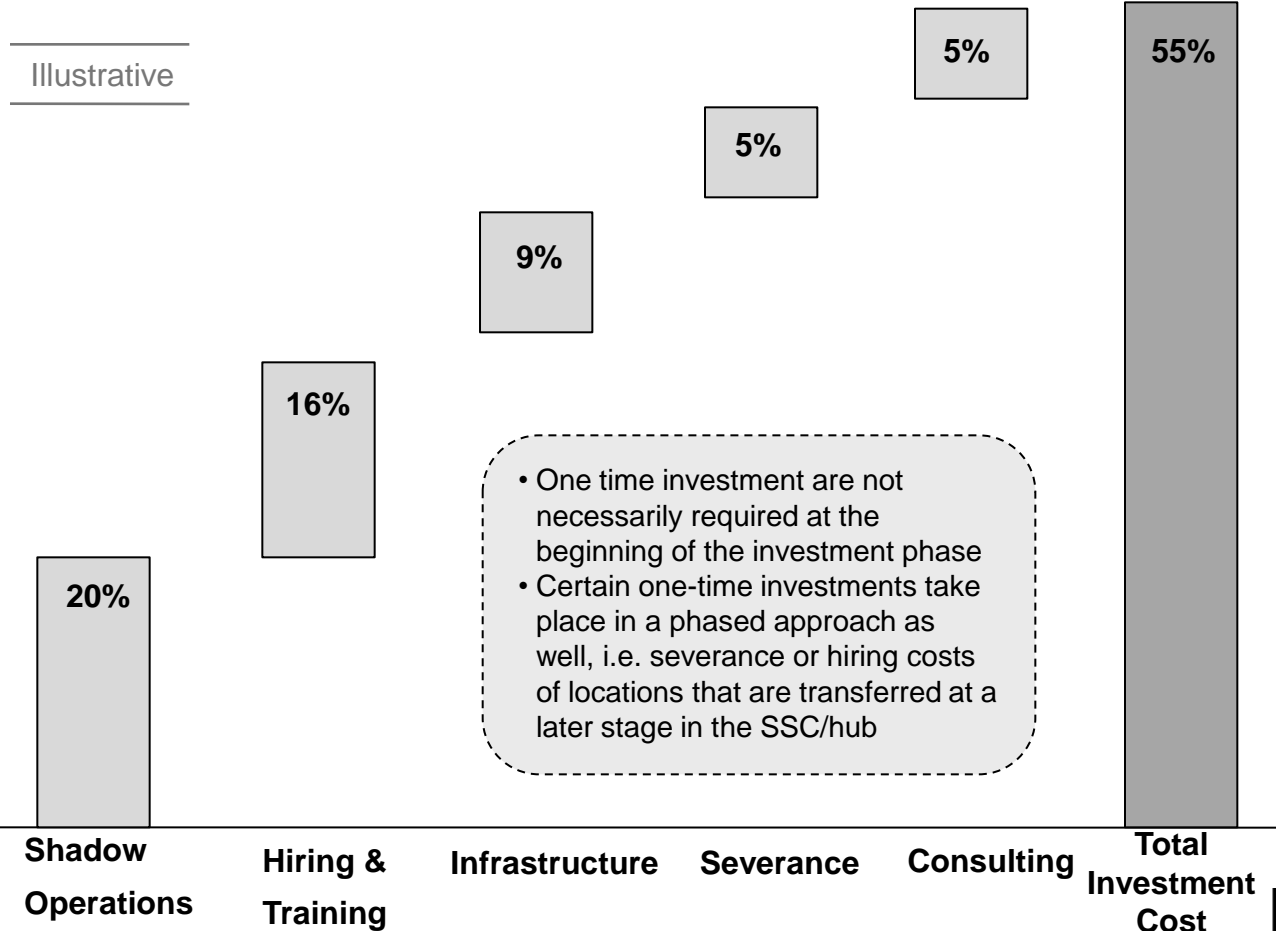
Costs for Shared Service Center (Offshore location)

Light blue box = Savings



# Finance Transformation

Investment Model for setting up a global SSC hub structure:

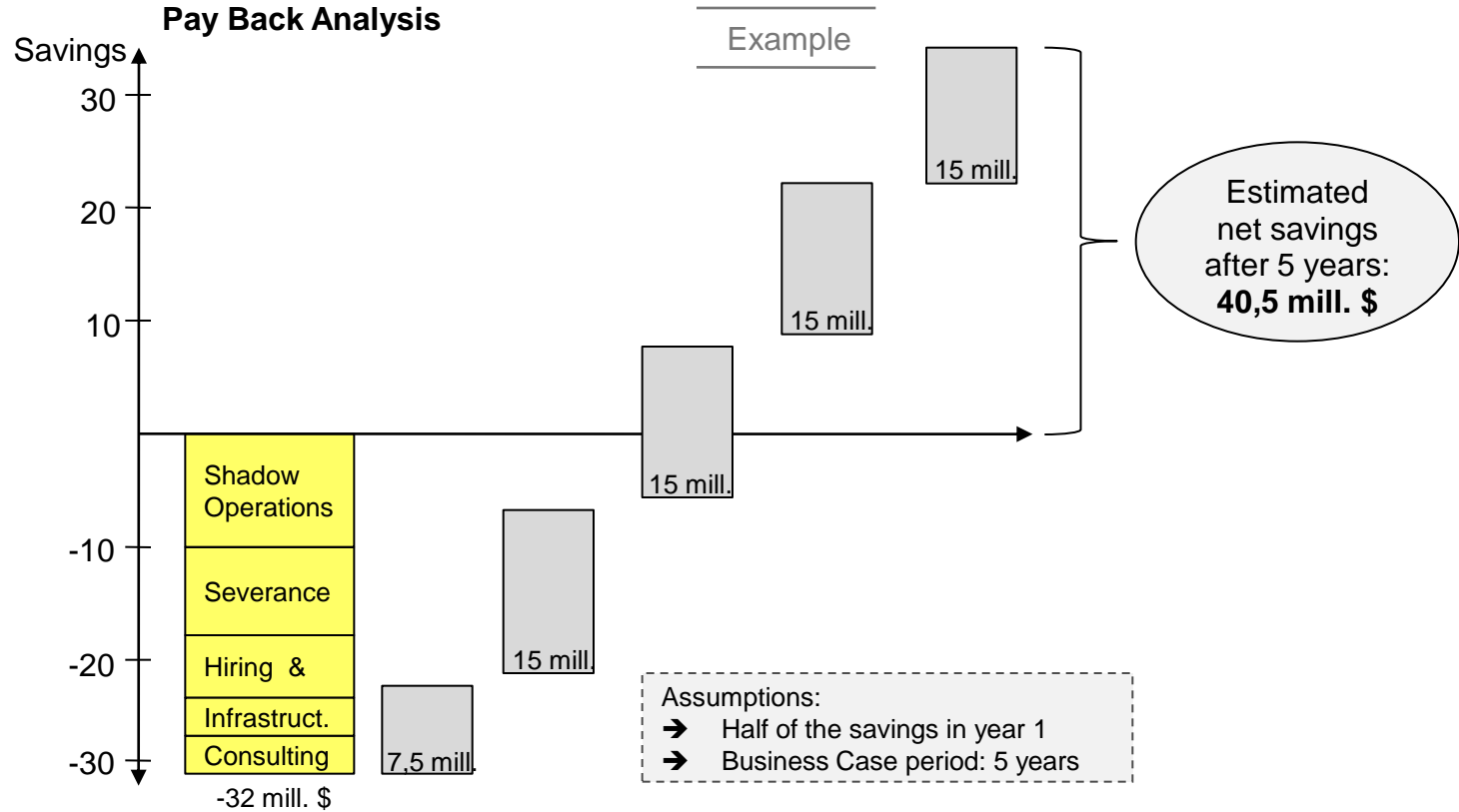


SSC Investment Model Key facts
<ul style="list-style-type: none"> <li>• Part of the Shared Services Assessment Framework</li> <li>• Purpose: assessing the required investments</li> <li>• Each category is based on a specific rationale and project experiences</li> <li>• Figures should be specified jointly with client as many data depend on the company's situation (e.g. severance packages)</li> </ul>



# Finance Transformation

Investment Model for setting up a global SSC hub structure:



**Shadow Operations**

**Total Investment Cost**



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Director



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