The transformation of the finance function through new organisation models

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The Transformation of the Finance Function through New Organisation Models

Ian Herbert - Deputy Director - Centre for Global Sourcing and Services

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Based upon a longitudinal study – 1997 to 2016

• Nature of the shared service model v. outsourcing
• Impact on the finance function, opportunities and challenges
• Present trends and future opportunities
• Impacts for individual careers, professional bodies and regional economies
The empowerment challenge!

“If we do our job properly there won’t be any need for a separate management accounting department!”

“The objective is to create resource consciousness at the point of resource consumption”.

Management Accountant talking about his department’s role in supporting empowerment (1997)
Organizational context: Utilityco

Safety, availability, reliability
Organizational context: Utilityco
The ‘Cycle of Life’ - 1990 to 2016

The further we look back in time the more clearly we might see the future!

Sir Winston Churchill

Men more often need to be reminded than informed

Dr Johnson
1. Modernisation – Lean & Mean?

- Market-driven ideology
  - Reduce headcount & cost
  - Outsourcing
  - Increase flexibility
  - Culture change
  - Assumption economic rational

1990
Charles Handy’s ‘Shamrock Organisation’

From: The Age of Unreason' (1989)

- Contingent workers
- Outsourced + self-directed contingent workers

Diagram:
- Professional core
- Contractual Fringe
- Flexible Labour Force
- Customers
2. Business transformation programme – working smarter

- New Working Practices – efficiency and effectiveness
  - De-centralisation
  - Empowerment
  - Autonomy
  - Smaller Head Office
  - SBU rationalisation
- Schumpeter – creative destruction
- But maybe raw Darwinism?

‘Survival of the fittest’ creates competition between plants*
Finding the balance

- traditional style
  - centralised
  - bureaucratic
  - structured
  = efficiency & control

- empowered
  - devolved
  - participative
  - fluid
  = effectiveness & flexibility
3. Consolidation – the ‘joined-up’ company

Need for greater efficiency (economies of scale)
- Driven by Head Office
- Consolidation of ‘like’ technology
- Acquisition of other energy businesses (joined up industry!!)
4. Shared Services – reduce cost through scope, scale and standardisation
Style of management

- **Trust + SARBOX**
- 1990: Macho ‘blame’ culture, Micro-management?
- 1998: Bureaucracy
- 2002: Empowerment
- 2007: Control

Assumptions:
- Trust: Assumption of trust. ‘Quality’ seen as anti-trust.
- ‘no-blame’ culture: Slow to blame
Style of management

Shared Services
- Cinderella of the plot

But a range of possibilities!!
Perhaps a ‘third way’??
Moving to a Shared Service Centre Model

Conventional Divisional structure (support services embedded)

Shared service centre structure

- Head Office
- Business unit 1
- Business unit 2
- Business unit 3
  - Service departments
  - Operating units

Semi-autonomous
Thinking like a business
Networking & benchmarking
More than just a new organisation chart - The SSC model blends different approaches

Combining a market outlook with inhouse management control

Working across the organisation

Enabling a single source of the truth in real-time throughout the management chain

New structures, ‘philosophy’ & techniques
## UK Business Services in brief

<table>
<thead>
<tr>
<th>Change Programmes</th>
<th>Facilities</th>
<th>Fleet</th>
<th>Country Management</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>We manage <strong>£65m</strong> of Change including delivery of the UK ERP project</td>
<td>Manage <strong>62</strong> secure, energy efficient sites, enabling <strong>14,000</strong> staff</td>
<td>Manage <strong>6,600</strong> safe, efficient company vehicles</td>
<td>Supporting <strong>10</strong> pan-European businesses</td>
<td>In excess of <strong>1,200,000</strong> transactions per annum</td>
</tr>
</tbody>
</table>

### People

- **17,000** colleagues paid
- Over **178,000** HR contacts annually

### Supply Chain

- We procure **93%** of UK’s **£1.1bn** spend

### Logistics

- More than **2,500** orders fulfilled each week

Delivered over **40,000** training days via **Engineering Academy** to over **7,000** delegates
Shared service (&BPO) - Success factors

✓ Simplification
✓ Division of labour/deskilling
✓ Standardisation
✓ A single version of the truth
✓ Objective/independent
✓ Scalable
✓ Efficient & achieving continuous cost reduction
✓ Finding the cheapest place on earth
✓ Networking and benchmarking
✓ Invisible to the business
✓ Phased migration, building on the wins

But... are these strengths compatible with the ‘brave new world’ of data analytics?
Towards a new business model?

- The ‘kingdom of engineering’ had been challenged.
- Engineering no longer THE core competence?
- Now, the ability to manage a bundle of engineering projects and liaise with the regulator is what now defines at least one part of the company. (c.f. Penrose, 1959)
- The SSC as a core competence? New intellectual property?
- Another perspective - as an energy trading company (with the ability to generate its own power).
- Finance has simultaneously become a commodity AND the driving force of the company (financialisation).
But what is the professional territory? And, whose is it?

SSC as a training camp? SSC as a career?

Herbert, Murphy and Wilson (2004)
And the future?
The further we look back, the more clearly we might see the future!  
Winston Churchill
The Centre for Global Sourcing and Services

Nothing’s changed but everything’s different!
All this technology is making us antisocial.
What we do?

“The Centre is dedicated to carrying out both academic and ‘focus on practice’ high impact internationally renowned research on how organisations source and manage business and IT services in a global context”........Centre for Global Sourcing and Services Website

How?

- Inhouse Shared Services
- Captive Shared Services
- Outsourcing

Where?

- Near-shoring
- Offshoring
- Crowd & Cloud Services

Back-sourcing?

Bringing the jobs home

Changing what is done

Stay sourcing?

The attainment of world-class business support services through the application of New Working Practices and Advanced Service Systems in a sustainable manner.

And increasingly... ‘who’?

Impact sourcing?
Implications of change – where are we heading?

• The hour glass profession?

• The segregated profession?

• The threatened profession?
Segregated finance?

- SSC
- Globalisation
- Finance operations
- Retained finance
  - Business Partners
Segregated finance?

Globalisation?

SSC

MI and analytics?

Finance operations

Retained finance

Business Partners

Buy in – MBAs or SSC training?

S1

S2

R1

R2
BPR squeezes the middle

Flat hierarchy

Elite workers – business facing
Accounting – who’s space is it anyway?

IT?

Process experts?
Operations managers

Head Office?
New roles – data scientists?

Self-service managers?

HR & Org. Designers

Marketing?
“any news from the Iceberg?”
Data Analytics – Structured insight?
There are significant opportunities for generating insight through data analytics and big data. But...

... research by Loughborough University’s Centre for Global Sourcing and Services suggests that this potential may not be realised if organisations do not ask the right questions about the links between

- business partners,
- business process centres, and
- business units.
Some people will spend a lot of time getting data analytics right, and a lot of people will spend some time getting it wrong.
Data analytics (& big data)

• Whilst corporate-wide master data has improved significantly in recent years, data analytics requires new thinking.

• This means creating a different culture that values and leverages data to better support global end-to-end processes which deliver real outcomes.

Input → BLACK BOX → Output
Organising for data analytics and big data

• Data analytics: needs new structures and thinking to go with the technical opportunities?

• Big data is messy and its application needs to be tailored around individual business problems.

• But, what if the talent pipeline dries up as the professional ‘training camps’ are offshored?
But before we go on..

What is essence of ‘big data’

And,

is it just a fad?
“Big data” refers to datasets whose size is beyond the ability of typical database software tools to capture, store, manage, and analyze.

(Big data: The next frontier for innovation, competition, and productivity, McKinsey Global Institute, June 2011)
WHAT IS BIG DATA – THE 4 Vs?

Volume
- Scale of Data
- 40 Zettabytes of data will be created by 2020, an increase of 300 times from 2005
- 6 billion people have cell phones
- World Population: 7 billion

Velocity
- Analysis of Streaming Data
- The New York Stock Exchange captures 1 TB of trade information during each trading session
- Modern cars have close to 100 sensors that monitor items such as fuel level and tire pressure
- By 2016, it is projected there will be 18.9 billion network connections – almost 2.5 connections per person on earth

Variety
- Different Forms of Data
- As of 2011, the global size of data in healthcare was estimated to be 150 Exabytes (101 billion Gigabytes)
- By 2014, it’s anticipated there will be 420 million wearable, wireless health monitors
- 30 billion pieces of content are shared on Facebook every month
- 4 billion+ hours of video are watched on YouTube each month
- 400 million tweets are sent per day by about 200 million monthly active users

Veracity
- Uncertainty of Data
- 1 in 3 business leaders don’t trust the information they use to make decisions
- 27% of respondents in one survey were unsure of how much of their data was inaccurate

The FOUR V’s of Big Data
- From traffic patterns and music downloads to web history and medical records, data is recorded, stored, and analyzed to enable the technology and services that the world relies on every day. But what exactly is big data, and how can those massive amounts of data be used?
- As a leader in the sector, IBM data scientists break big data into four dimensions: Volume, Velocity, Variety and Veracity

Sources: McKinsey Global Institute, Twitter, Coca, Gartner, EMC, SAS, IBM, WEPTEC, GAF

= Value
What is the basis for finance professionals’ claim to be well placed to help unlock Big Data?

Use core skills → In business context to bring insight → To influence people → And lead the organisation

Efficiency
- Data capture
- Reports
- Analysis
- Insight
- Influence
- Impact

Value

Comfort zone

Source: CIMA
Insight, influence and impact requires...

- Inspiration/creativity
- Leading-edge expertise
- Broad views & multidisciplinary collaboration
- Business connectivity & understanding
- Data security
- Intelligent information users
- Interpersonal skills
CIMA Survey 2015

• For most companies, fully adapting to a data driven era of business remains a work in progress.

• ‘86% of the finance professionals we surveyed agree that their businesses are....

... struggling to get valuable insight from data, not least due to issues such as organisational data silos, challenges relating to data quality, or difficulties in working with unfamiliar non-financial data.’
Challenges in harnessing Big Data

- Bringing data together from different databases/business silos: 62%
- Ensuring the business captures reliable good quality data in the first place: 51%
- Extracting insight from non-financial data: 46%
- Ensuring insights gained from data are used to improve performance: 43%
- Identifying meaningful trends and insights in a mass of data: 39%
- Intelligent visualisation and reporting of data: 34%
Challenges in harnessing Big Data

- Combining siloed data: 62%
- Capturing good quality data: 51%
- Extracting insight from non-financial data: 46%
- Making impact: 43%
- Identifying trends: 39%
- Intelligent presentation: 34%
Challenges in harnessing Big Data

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- Organisation & SSC
- Skills
- Bus. partners
- Technical back office
- C-Suite advisors
The competencies required for data analytics
The competencies required for data analytics

- Behaviours and systems in data analysis
- Motivation for data

Dimensions:
- Commercial
- Conformance
- Performance
- Technical
The competencies required for data analytics

- Performance
- Conformance
- Commercial
- Technical
- Reliability
- Validity
- Value added
- Monitoring & control
The competencies required for data analytics

Source: CIMA
New roles for management accountants

Data Champion - Commercial
Data Manager - Conformance
Data Scientist - Performance
Business Partner - Technical

Data culture - Commercial
Value creation - Conformance
Data management - Performance
Analytics - Technical

Source: CIMA
New roles for management accountants

- Data Champion
- Business Partner
- Data Manager
- Data Scientist

- Data culture
- Value creation
- Data management
- Analytics

Source: CIMA
“It’s not an exact science.”
Have you got the right culture?

Weekend

Weekday

Are we trapped in a digital stone-age?
The near future??

Robotic Process Automation

Humans Need Not Apply
Better technology makes more better jobs for horses
Earn to Learn Scheme

The Earn to Learn Scheme is an initiative being piloted by Loughborough University in collaboration with a number of other universities across the UK.

The scheme endeavours to attract Shared Services/BPO organisations to establish premises on or near campuses to develop mutually beneficial working relationships for both organisations and students.

- Access to multi-language talent pool
- Flexible, competitive, labour force
- Work with universities to develop work relevant, world-class, learning
- Reduced labour attrition

Students

Earn to Learn Scheme

Organisations

- Earn whilst studying
- Develop practical skills for a range of sectors
- Potential career progression opportunities
Questions?
Time-space distanciation
Quattrone & Hopper (2005)

ICT (ERPs in particular)
Is enabling events, actions and people to be separated over time and distance.

This is what enables....
The global knowledge economy!

Problem is though….

The only person who has to be in that particular location is the man digging the hole.

Those others could be in Poland!!

The Martini Workers!

Any time, any place, any where!