



Innovations in Outsourcing: The Microsoft Experience

Microsoft[®]

Case Study

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Abstract

Microsoft embarked on the OneFinance initiative in 2006 to completely reengineer its global finance processes and operations. As part of this effort, Microsoft outsourced back office finance transactions spread across 95 countries to Accenture under an agreement that promotes commitment to mutual gains and performance improvements. The outsourcing engagement was successful in transforming Microsoft's finance operations and cementing a productive partnership between Microsoft and Accenture. This case study highlights how the use of two software tools, *Controller Workspace* and *Governance Workspace*, within a well-planned and carefully implemented outsourcing process and governance structure contributed to the success of the OneFinance initiative.

Background

Microsoft is a worldwide leader in software, services and solutions, with offices in more than 100 countries and 2010 revenue exceeding \$62 billion. One of the key characteristics that enabled Microsoft's phenomenal growth, a high degree of autonomy for subsidiaries, also resulted in fragmentation of the company's finance, accounting, and procurement functions. Such fragmentation led to duplication of effort, inconsistency in performance and compliance in these critical functions. Driven by the need to create a more consistent and efficient approach to finance, accounting, and procurement, Microsoft embarked on a complete reengineering of these processes in 2006. The initiative, labeled "OneFinance", examined the current state of Microsoft's global finance operations, benchmarked the organization, and identified challenges in the management of these operations. The OneFinance team then moved to designing and implementing the future state of these operations. At the outset, then Microsoft's Chief Financial Officer, Chris Liddell, outlined his vision for a global, integrated finance and procurement organization that would operate with efficient processes, effective controls, and clear roles and responsibilities. He wanted "Best-in-class Finance functions, enabled by process standardization, solid internal controls, and effective performance management...achieved by hiring and developing the best people and using integrated applications that showcase Microsoft technology."

The OneFinance team examined multiple options for the streamlining of the global finance operations, and concluded that engaging with an organization experienced in the area and leveraging their expertise was the best choice for achieving their objectives. In 2007, Microsoft partnered with Accenture to achieve their vision for OneFinance through a seven year bundled agreement to outsource procure-to-pay and record-to-report functions. The agreement spanned four transactional processes across Microsoft's subsidiaries: accounts payable, document management, general ledger and procurement. It encompassed 95 countries and 450 individual roles within finance, accounting and procurement functions. Twenty-eight months later, based on a proven platform of success, they extended the agreement to 2018, at a total contract value of \$278 million. In the summer of 2009, the scope of the contract was expanded to include Accounts Payable and Buy Center processes for the United States, increasing the contract value to \$330 million. In addition, Accenture has an opportunity to work on transformational projects with Microsoft, thereby adding value for both parties.

Innovation supported by best practices

The success of the OneFinance initiative is a result of carefully considered plans to achieve consistency and cost-effectiveness in operations combined with purposefully enacted best practices in the management of outsourcing. The outsourcing partnership that supported the OneFinance operation represents the advancement of accepted practices in outsourcing from multiple dimensions: the implementation of a comprehensive outsourcing governance structure, change management, and a commitment to ongoing transformation through outsourcing.

Within these set of best practices, Microsoft embedded two innovative tools for the management of the outsourcing arrangement.

The *Controller Workspace*, part of the larger Microsoft Finance Portal, provides a transparent financial snapshot, complete with real-time scorecards on compliance and execution performance at each subsidiary, and functions as a single point of reference for both Microsoft and Accenture. The *Controller Workspace* serves as the hub of all data related to the finance operations; it includes functionalities for collection, collation, analytics, and reporting. It is a workflow tool that enables Microsoft Financial Controllers to delegate transactional activities to Accenture Assistant Financial Controllers, check on the status of these activities, and manage the activities. The *Governance Workspace*, a portal built on Microsoft SharePoint and Performance Point technologies, enables all stakeholders to obtain information about outsourcing operations,

providing “one view of the truth.” This second tool helps bring together accountability and responsibility in an intuitive and rational way that helps Microsoft and Accenture teams forge an effective partnership. It presents a strategic view of the entire performance of the contract to both parties.

It is the effective use of these tools within the framework of sound governance and commitment to a win-win relationship that has led the Microsoft-Accenture partnership to its phenomenal successes.

Tool 1: Controller Workspace

The Controller Workspace is a unique new tool to manage financial controllership. Financial controllers at Microsoft rely on multiple line-of-business applications to manage their day-to-day finance processes. Faced with the challenge of building a unified experience, the internal Microsoft IT Finance team used out-of-box features of Microsoft Office Excel® Services in Microsoft® Office SharePoint® to create the Controller Workspace.

When Accenture took over the responsibility of managing the operations for Microsoft, to help bring about greater efficiency and continuous improvement an Assistant Financial Controller role was introduced within the Accenture organization to manage the monthly close process and oversee regulatory compliance. This new role provides a single point of contact for each business entity within the Microsoft organization and frees Microsoft's Financial Controllers to play a more strategic role within the business. This structure has been instrumental in creating a tight-knit relationship between the Microsoft organization and Accenture's service delivery team and driving toward common objectives. With this role in place Accenture manages the accounting activities for Microsoft. The Controller Workspace enables the Accenture Assistant Financial Controllers to efficiently oversee and manage the day-to-day close process while providing Financial Controller oversight and enables Microsoft's Financial Controllers to delegate transactional activities to Accenture. It brings together accountability and responsibility in an intuitive and rational way that helps the Microsoft Financial Controller ensure a successful close in partnership with the Accenture Assistant Financial Controller. It reinforces the relationship that OneFinance is driving, enabling Microsoft Financial Controllers to focus on strategic issues while delegating day-to-day tactical activities to the Accenture Assistant Financial Controllers.

The Controller Workspace site provides a central location for aggregating data about the close and compliance processes. The improved visibility into data helps controllers see up-to-the-minute status of their close and compliance processes; helping them better focus their efforts and manage risk appropriately. It extends the existing Finweb platform as a one-stop-shop for Controllers bringing together relevant tools aggregated into one central location. FinWeb is an intranet solution linking all of Microsoft's corporate finance groups. FinWeb enables employees around the world to get up-to-the-minute information on virtually any corporate financial matter.

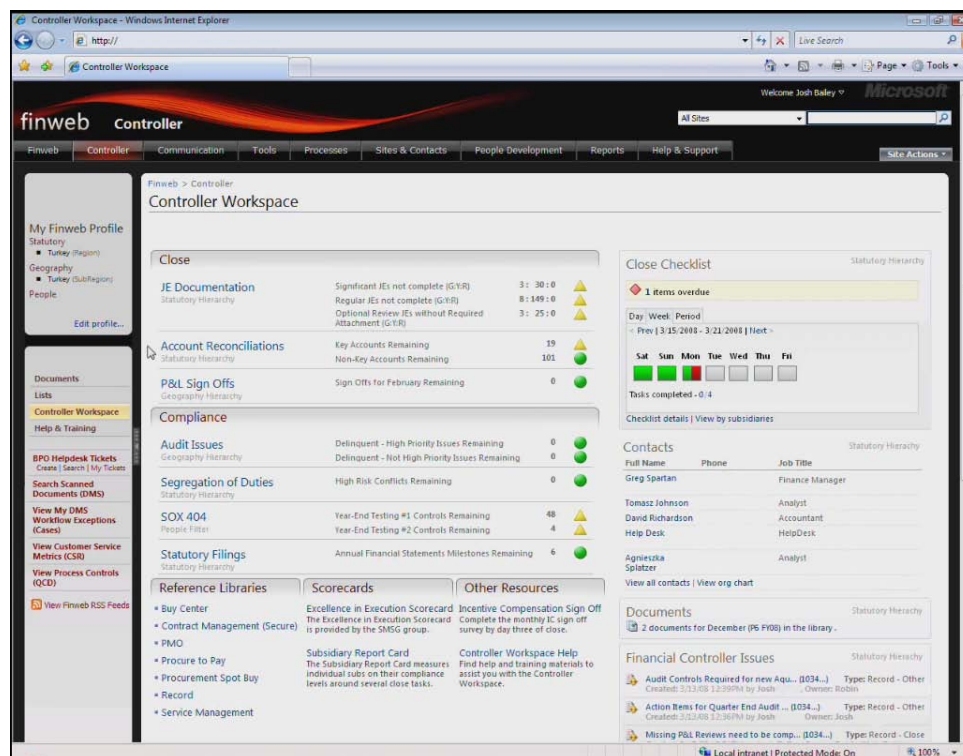


Figure 1: A screen shot of the Controller Workspace.

The Controller Workspace is a one-stop shop for everything that the controller needs to do his job. It provides clear, up-to-the-minute data on regulatory compliance, and the status of the monthly close and is a mechanism for requesting standard and ad hoc tasks. It is role based: a Controller in one particular country receives the data related to her particular country, a region leader receives data aggregated to the region and a global leader accesses global delivery results. It is also fully integrated into every system within the Microsoft finance ecosphere, which means the user can drill down from the summary data that is presented into any finance application to actually perform tasks. Through the Workspace, the Controller manages profit and loss approvals, Sarbanes Oxley compliance and audit issues.

Once a job has been completed in the Controller Workspace, it will translate into a metric. The end metrics of completed activities will be downloaded into Governance Workspace at the time of measurement, usually the end of the month. Thus, the end metrics get published in Governance Workspace, creating a workspace which will display the outcome of the entire service delivery of the outsourcing arrangement. This integration allows the Governance Workspace to provide a strategic view of the entire performance of the contract.

Tool 2: Governance Workspace

Microsoft knew if they were to foster trust with Accenture they would need to have a transparent relationship based on facts and the ability to “see” critical components of the business in a timely manner. By automating the monitoring of processes and making sure relevant stakeholders has access to the information they need, the *Governance Workspace* tool provides for transparency and openness in the exchange relationship and increases the trust between the two organizations. The tool contributes to a culture of data-driven continuous improvement in the Microsoft-Accenture partnership.

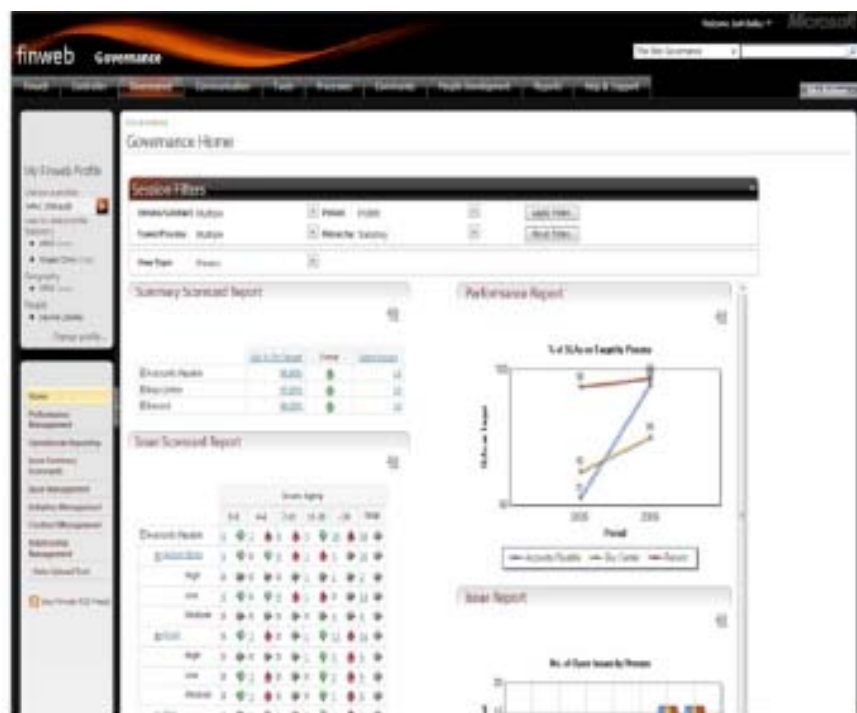


Figure 2: A screen shot of the Governance Workspace.

The development of this innovative tool was a natural outgrowth of Microsoft's goals for the OneFinance initiative and the outsourcing arrangement: transparency and fact-based management driving performance. The outsourced global finance and procurement initiative has been underpinned by a strong joint ownership of governance. With input from Accenture, a governance structure was crafted to drive insight and transformation, and reduce oversight costs that typically derail client expectations from outsourcing. The governance structure was built around four core functions or roles (as listed below) that are intended to develop a working relationship to streamline communications and promote and drive their transformational efforts. The Governance Workspace supports these functions.

1. Service Delivery and Management: this function is responsible for the efficient and effective delivery of service, responsive customer service and ensuring service delivery is compliant with regulatory and internal policy requirements.
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3. Process Championship and Transformation: this function has responsibility for process stewardship and thought leadership. The function drives service excellence through appropriate improvement and transformational initiatives to attain world class levels and in response to changing business requirements.
4. Controls and Compliance: they are responsible for developing a robust world class controls and compliance environment in response to evolving business needs as well as internal and local requirements.
5. Commercial and Relationship Management: This function is responsible for managing the commercial and contractual aspects of the outsourcing relationship and the overall relationship across the various stakeholders in the two organizations.

Further, the governance structure was bolstered by a streamlined communication model that would encourage peer-to-peer communications and timely issue resolution at the lowest possible levels, while

supporting reviewing and reviewing requirements at different levels in both organizations. The structure in Microsoft's organization mirrors the structure in Accenture with weekly calls to ensure alignment on all issues. Again, this communication is supported by the Governance Workspace tool as it helps the two organizations to jointly monitor and manage performance against service level agreements, as well as the status of key metrics, action items and risks. The structure ensures transparency on both sides when there are issues, particularly highlighting the plan to mitigate and solve them.

Through the Governance Workspace, Microsoft and Accenture can see all operational and performance information. For Microsoft's OneFinance team, the Governance Workspace enables consistent management of Accenture across the world. The workspace contains different "views" to meet the needs of the various stakeholders. In addition, the Governance Workspace portal shares frequent updates across the team and with stakeholders about transformation projects to improve transparency and build trust as the organization works to make "change a constant" within Microsoft. One of the tools used is a Monthly Update that provides the status on the business and transformation projects, as shown in Figure 3.

The Governance Workspace portal also incorporates a Planning and Control tool which helps eliminate unnecessary and unwanted surprises by showing, in real-time, the status of service and providing an efficient reporting tool for SLAs, measurements, transactions and deadlines. Time and Expense processing is now automated by optical character recognition, and is a process now managed by exception. In addition, data entry macros and systems integration initiatives reduce data entry across all systems and generate efficiency savings. Accenture has been able to remove all data entry staff across its four global locations for expense processing work.

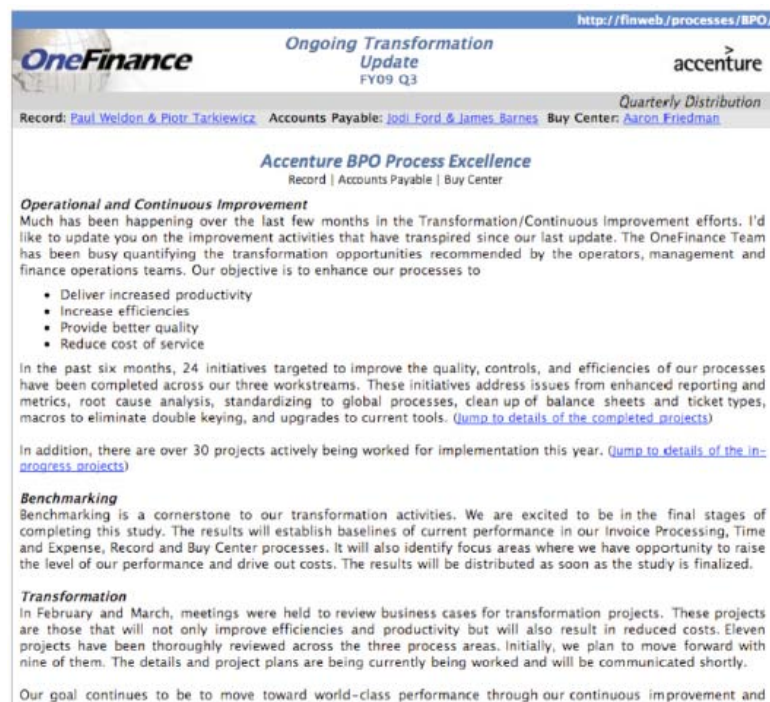


Figure 3: Example of the OneFinance Newsletter

Value Created/Outcomes

While OneFinance is an ongoing engagement, results so far have been impressive. For example, Microsoft has achieved an initial 35 percent reduction in operating costs and has driven improvements in procurement process compliance and realization of supplier discounts. In addition to these cost savings, Microsoft now enjoys a reduced administrative burden, improved compliance with regulations such as Sarbanes-Oxley and with corporate procurement guidelines, and increased procurement efficiency.

Every month, Microsoft measures approximately 2500 service metrics covering the entire geographic scope and services of the outsourcing contract. Accenture's success rate on those service metrics over the past year has consistently been at or above 99.5 percent.

Furthermore, the new operating model enables Microsoft to have greater flexibility and simplicity in managing the future needs of global finance and procurement operations. It is far easier to implement controls, manage compliance, make process changes and integrate an acquisition's financial reporting across four delivery centers than 96 individual countries.

Lessons Learned

An examination of the successful use of the Controller Workspace and Governance Workspace highlight how the use of these tools has contributed to the culture of collaboration and data-driven transformation in the outsourcing engagement. It also emphasizes the importance of developing comprehensive and aligned governance structures for the outsourcing engagement and architecting of consistent and efficient processes aligned with clear objectives. In fact, Srini Krishna, Director, Finance Operations – Global Vendor Management at Microsoft, holds that without the basic framework, the effectiveness of the tools would have been compromised. In his words, “all the planets and the stars have to be aligned” before the software tools can be put in place.

The OneFinance Team started with clear goals for its OneFinance initiative and the outsourcing engagement. The Governance Workspace was crafted to align with the governance structure and meet these goals, ensuring that the tool completely supported the governance needs of the organization. By enabling a common view and ready access to information, it creates a collaborative platform that enables the two organizations to examine, analyze, and perform root cause analysis on issues that have been raised. The strength of the Governance Workspace lies in its analytical capability; it pulls together all metrics related to business performance in a manner that can be easily viewed. By providing insights about the performance of the organizations, it drives process excellence.

In an outsourcing arrangement that is as complex and globally distributed as the Microsoft-Accenture partnership, innovation is not represented by one single element, but in the linkage and synchronization of various elements to form a coherent, logical, end-to-end structure, enabling both organizations to work as one. As a result of a governance structure that provides joint incentives for ongoing improvement, Microsoft and Accenture continue to introduce innovative new tools and approaches to reap greater benefits from the engagement.