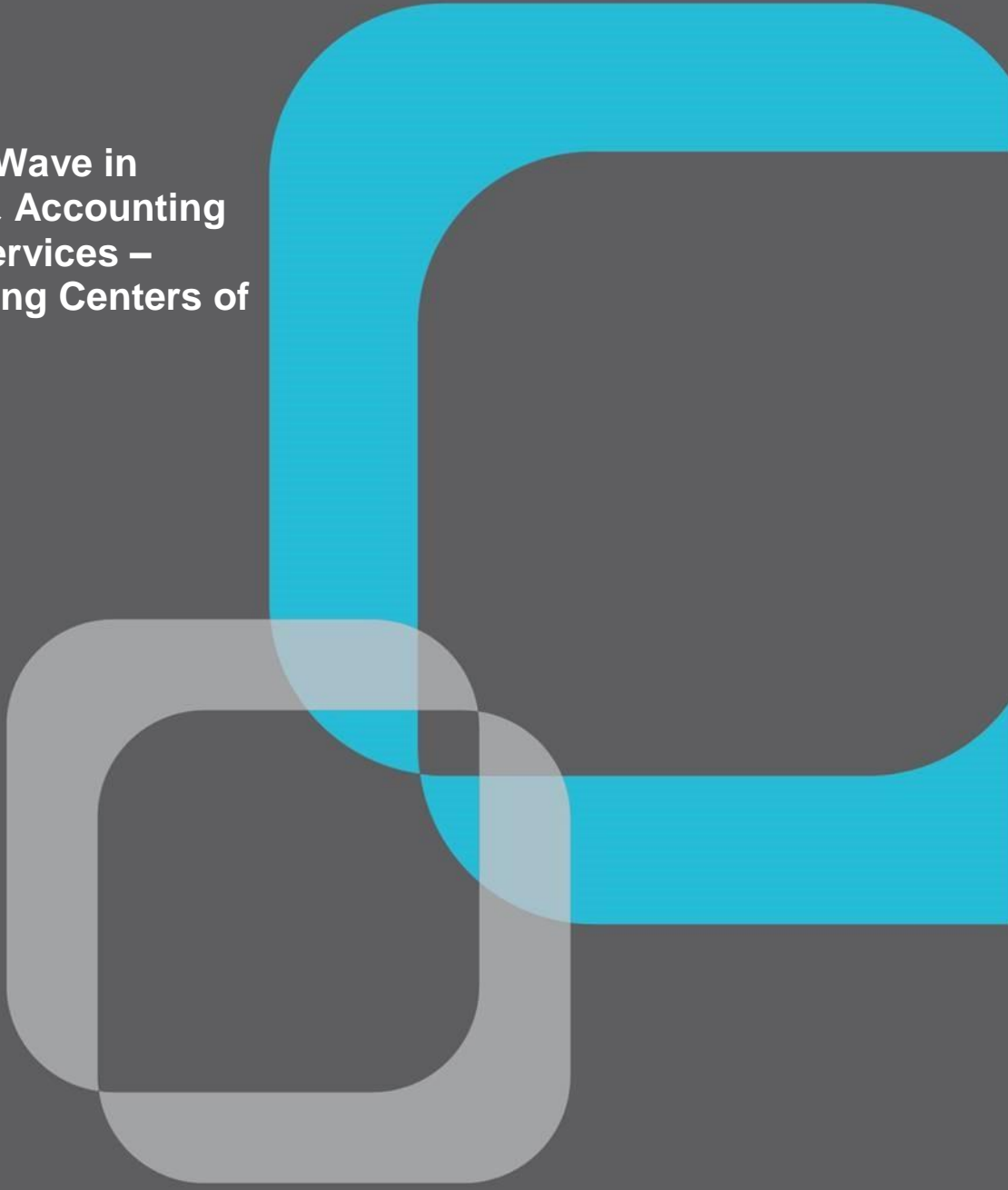
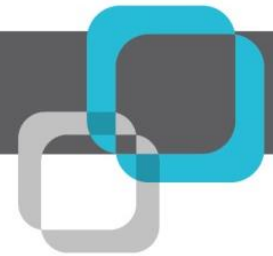


**The Next Wave in
Finance & Accounting
Shared Services –
Establishing Centers of
Expertise**



Smart. Focused. Done Right.





INTRODUCTION

As finance and accounting shared services operations continue to mature, companies are increasingly attempting to add more value by “moving up the value chain.” While there are various ways to expand shared services, one of the common philosophies is to implement Centers of Expertise. But what is a Finance and Accounting Center of Expertise? What makes it different? Who should lead it? This article offers ScottMadden’s perspective and attempts to answer “everything you always wanted to know about Finance and Accounting Centers of Expertise, but did not know to ask.”

OUR PERSPECTIVE

1. What exactly is a Finance and Accounting (F&A) Center of Expertise (COE)?

An F&A COE is best defined as a small team of specialists who promote collaboration and the use of best practices for a specific focus area common to multiple business units in order to drive business results.

2. Are F&A COEs part of shared services or something else?

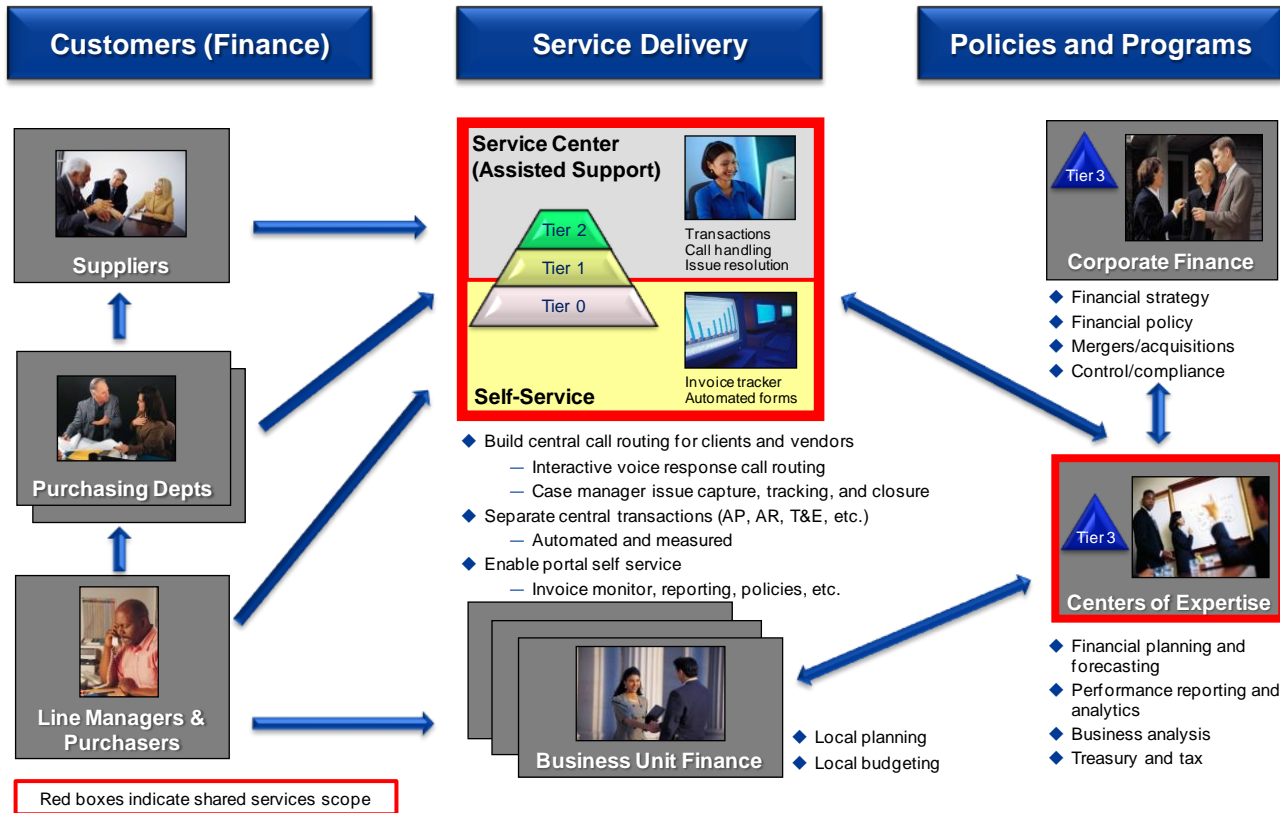
While companies have occasionally organized F&A COEs independent from shared services, ScottMadden believes that the most efficient and effective COEs are part of the shared services delivery model. Included in the overall shared services model are the core service center as well as the F&A COEs.

The service center is a centralized location where transactions, such as invoices and expense reports, are processed. A leading service center also has a customer care team that answers questions and tracks, monitors, and resolves issues.

The F&A COEs are teams of employees that focus on analytical processes and problem solving instead of transaction processing. Like the service center, the customers of the COEs are the business units.

In leading shared services delivery models, both the service center and the COE leverage a portal that enables employees to look up policies and calendars (e.g., when initial budgets are due) or get on-line answers to questions (e.g., the status of an invoice).

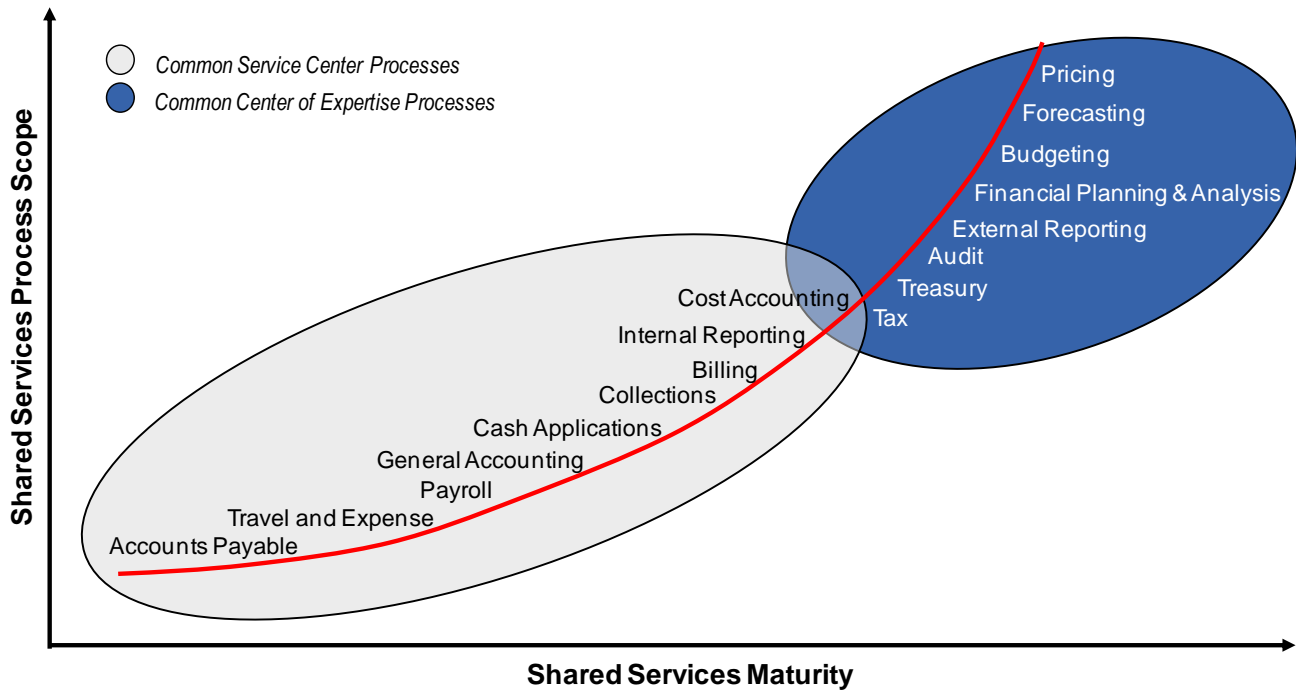
By including both the service center and the COE in an integrated model, common customer service practices are utilized and common metrics and reporting capabilities can be leveraged. ScottMadden’s perspective of an integrated shared services delivery model is shown on the next page.



3. What types of processes are usually included in an F&A COE?

A variety of processes can be included in an F&A COE, but all COE process candidates have several things in common. First, they tend to be more specialized than transaction-based accounting processes and therefore require more educated and experienced resources to perform the work. Second, they are often analytical focused and are dependent on resources with critical-thinking skills, enterprise thinking, and judgment in decision making. Third, they are performed less frequently than transaction-based processes, occurring on a less routine or sometimes ad hoc basis. Examples of these include budgeting and planning, which may occur quarterly or annually, and financial planning and analysis, which may occur on an ad hoc basis depending on the item being analyzed. Fourth, because F&A COEs are more strategic in nature than most transaction-based processes, they are not often candidates for outsourcing.

Page three shows a chart of common F&A processes with emphasis on those most frequently included in a COE.



4. What about procurement?

While procurement isn't included as one of the common F&A processes, it is linked to F&A as part of the procure-to-pay (P2P) process. As such, the "pay" part of P2P is naturally included in the service center. Likewise, the transactional components of procurement, like purchase order generation and administration, may also be included in the service center. The more analytical components of procurement—like strategic sourcing, spend management, and demand planning—are excellent candidates for a COE.

5. Are there any other common F&A COEs that haven't been mentioned?

In addition to F&A and procurement processes, one other focus area has seen increasing importance as technology capabilities and data management have improved. This focus area, business analytics, offers a new field of service for traditional shared services organizations. By providing analytical support to business functions outside of shared services, a business analytics COE delivers a new source of value not previously considered. For example, gathering and analyzing customer data may allow the COE to offer the sales team opportunities to increase revenue through up-selling and cross-selling. In another example, the COE may conduct payment term analysis and billing quality assessments to target improvements to cash flow.

As business analytics grows in importance as a COE that delivers previously untapped value, companies take different approaches to its implementation. In some cases, business analytics is an overarching COE that represents data and information across many functions, such as finance, HR, operations, and sales. In other instances, companies elect to create one or more business analytics COEs that are focused only on a specific function, such as finance or HR.

Outside of F&A, a number of other functions have also incorporated the concept of COEs. In HR, examples include compensation, benefits, organizational learning and development, and talent management. In IT, examples include infrastructure and network architecture design as well as data center management. Finally, there are COEs in non-traditional functions that are just beginning to mature. Examples of these include legal, quality assurance, communications, marketing, and safety, health, and environmental services.

6. Are F&A COEs co-located, decentralized, or something else?

COEs have traditionally been located near the corporate finance function. This is due in large part to the collaboration often required with corporate finance. For example, the COE may own budgeting and planning, but initial targets will likely be set by corporate finance who will also have final approval.

While locating near corporate finance has been common, new technologies are allowing different ways for COEs to organize. The use of video conferencing and telepresence is generating opportunities for “virtual” COEs. For example, a team of COE members may meet weekly through telepresence to create the sensation, and resulting effectiveness, of being located together.

While new technologies allow the creation of virtual COEs, ScottMadden believes that newly established COEs are most successful if co-located. As COEs mature, processes are established, and effectiveness is proven. Transitioning to a virtual organization creates opportunities to attract and retain excellent resources, even if they are not geographically co-located.

7. How are F&A COEs different from corporate finance?

The focus of corporate finance is to set strategy, oversee mergers and acquisitions, design policies, and determine targets. Corporate finance provides “top down” guidance, has fewer interactions with internal customers, and often lacks a service culture. In general, corporate finance and F&A COEs serve different audiences—corporate finance operates for the enterprise, while F&A COEs operate for business units or divisions. In our perspective, corporate finance in a shared services delivery model is comprised of fewer people than in a traditional corporate finance department. In the table below, the typical responsibilities of the COE, service center, and corporate finance are depicted.

| Function | Corporate Finance | Centers of Expertise | Service Center | Business Unit Finance |
|--|--|---|---|---|
| Accounts Payable | Little involvement | Problem solving | Processing, support | Direct work to service center, provide liaison to COE |
| Accounts Receivable | | Problem solving | Processing, support | |
| Payroll | | Problem solving | Processing, support | |
| General Ledger | | Problem solving | Processing, support | |
| Tax Accounting and Reporting | Tax strategy and policy | Provide service for corporate, support field | Make routine tax filings | Ensure compliance |
| Financial Reporting | Set requirements | Design reporting structure and formats | Provide financial reports (internal and external) | Maintain local distribution |
| Business Planning and Budgeting | Define corporate targets | Provide service for corporate, support field; maintain processes | No direct support | Provide service for local customers |
| Property Accounting | Set capitalization policy | Provide service for corporate and field | | Ensure compliance |
| Financial Analysis and Evaluation | Set hurdle rates, other corporate requirements | Design and maintain processes; provide service for corporate, support for field | | Provide consulting service to local customers |
| Treasury (cash management, bank relations, investor relations) | Manage | Corporate serves as COE | Provide wire transfers | Identify local needs |

8. How do F&A COEs maintain knowledge of business units and end customers?

While COEs may not be located in the business units, they are still able to maintain knowledge of the business units they support and the end customers they serve through various means. Like the service center, COEs also use customer account managers to provide insight into the business. The customer account managers maintain a presence in the business units by attending key meetings, being accessible to business unit leaders, and staying attuned to business unit strategies and politics. The customer account managers also serve as strategic liaisons between the business units and shared services. Finally, customer account managers share metrics and gather business unit input on improvement opportunities.

In addition to customer account managers, F&A COEs also remain connected to business units through service level agreements, direct contact with business unit finance leadership, periodic customer satisfaction surveys, and performance metrics.

9. To whom do F&A COEs typically report?

Reporting relationships for F&A COEs tend to vary across companies. When COEs are co-located with corporate finance, they typically report to it as well. By reporting to corporate finance, COE leaders are able to easily retain corporate visibility and strategic perspective. Some organizations design COEs to report to the head of shared services, who is also responsible for the service center. By reporting to the shared services organization, COE leaders ensure consistency in the shared services delivery model. While ScottMadden believes that COE leaders are most effective

when reporting to the head of shared services, COE leaders have unofficial responsibilities to both corporate finance and the shared services organization. COE leaders serve as the “bridge” between corporate finance and the service center and must coordinate across both.

10. What types of people are the best leaders in an F&A COE?

Because the head of a F&A COE has clear responsibility to define “what best is” in the focus area, must continuously improve the function, and is accountable for COE performance, he or she can be described as the chief operating officer of the function.

The best COE leaders have several traits in common. First, they have high standards and lead with courage. They tend to be intrusive when necessary and manage the results. Second, they are technical experts in their subject area, and they are respected across the company as the “go-to” person in that function. Third, they are thoughtful leaders who are influential both inside and outside the organization. They focus on proactive management, are solution oriented, and understand long-term goals and how to get there. Finally, strong COE leaders are change agents and excellent communicators. They are able to describe the COE vision and lead others to understand, adopt, and engage in realizing that vision.

MORE INFORMATION

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