

As large companies increasingly understand that outsourcing can deliver greater benefits than simple cost reduction, a growing number are using external service providers to handle their finance and accounting (F&A) processes.

It is also becoming clear that using offshoring to improve processes and deliver synergies, while reducing costs, depends on choosing the right partner and managing that relationship effectively. Corporations enjoying successful outsourcing partnerships exhibit many common elements in their approach to providers and contracts. Thoroughness, caution, care and, above all, clear objectives are required, along with a willingness to devote sufficient time and resources to ensure that

outsourcing agreements are closely aligned with overall business strategy.

Global research-based healthcare company GlaxoSmithKline (GSK), a household name in pharmaceuticals and consumer healthcare markets, which has a turnover of £23.2 billion from operations in over 125 countries, is just such a corporation. In 2003, it launched an initiative to offshore its shared financial services (SFS). After a rigorous selection process, GSK opted to engage an external service provider, transitioning its UK SFS in 2005.

GSK chose global business services and technology solutions company Genpact, which runs 30 operations centres in nine countries, as its partner, partly on the

strength of its track record of successfully transitioning over 1,000 processes for General Electric and other Fortune 500 companies. Accounts payable, payroll, fixed assets, general ledger accounting, filing and statutory accounting were among the processes initially covered by the multi-year agreement.

Paul Blackburn, Group Financial Controller for GSK, says: 'Cost reduction might raise the outsourcing issue initially, but with the right vendor you find that processes become more effective. Cost savings are attractive to us, but we also wanted to move towards outsourcing without any service disruption during the transition period.'

'At the outset, those were the key criteria, but since it has gone live we have found

F&A outsourcing can deliver much more than cost reductions, but success depends on selecting your partner carefully and developing a good relationship. GSK's Paul Blackburn tells Jim Banks how to get it right.

Look before you leap



that customer service, quality and control and our audit outcome have all improved. Governance is strong and the relationship is going well, so we are partnering more with our vendor for added value.'

The UK implementation proved successful, meeting the 40% cost reduction target. It also improved GSK's employee and supplier payment performance, putting the company in a strong position to negotiate discounts with suppliers.

Blackburn explains: 'That level of cost reduction was attractive to us, as we looked for projects to pay back within three years. We couldn't have got all the way by ourselves. Other efficiencies also emerged, as roles and responsibilities within our business groups were clearly defined. Confidence in the business has risen, so we rely more on what comes out of our service provider.'

Since 2005, GSK has built on this success, transitioning US shared financial services in 2006, and is now looking to offshore selected research and analysis functions completely to Genpact, including reporting of actuals, forecasting and planning. As well as labour cost savings, the move also frees up internal accounting resources from those basic and repetitive tasks, allowing them to be more customer-facing.

The selection imperative

The success of GSK's relationship with

Genpact owes much to the rigour of the selection process. GSK began with a request for information (RFI), which required a detailed, internal assessment of the appropriate criteria for a supplier to meet, looking beyond the 40% cost reduction target.

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Blackburn says: 'We wanted to offshore, so we needed to know who was in the market, and at the time there were not many. We identified suppliers who had proven the concept, as we did not want to be a guinea pig, so track record was very important. Delivering the desired cost reduction and low climate risk in the chosen geographical location were also key criteria.'

With offshoring the aim, debate over geography was inevitable, with Eastern

Europe, India and China all in the frame. GSK chose India, largely on the basis that it has a good supply of well-educated English-speakers and a history of strong governance. Blackburn adds: 'The cultural fit with India also helps to ease the transition. There is some concern over attrition rates, though that has not affected our services. That can be reduced, however, by training and development, helping to make employees feel that they are part of GSK.'

Following the RFI, GSK issued a request for proposal (RFP) to a shortlist of suppliers, which outlined details of timelines and migration plans. Together, the RFI and RFP stages took one year to complete, resulting in a selection process involving all GSK personnel who had been involved in the RFP. They ranked suppliers and their proposals to ensure maximum objectivity.

Thoroughness at the RFP stage helps to define the basis of the terms and conditions and the resulting service level agreement, which ultimately determines the benefit for buyer and vendor, though GSK recommends input from legal experts in F&A BPO in finalising a contract.

Monitoring and measurement

Once a contract is in place, the next key step is to ensure that the right framework is in place to monitor risk and vendor performance and ensure appropriate governance of the relationship with third parties.

Process performance assurance has many components, but the overall performance of the vendor relationship is measured with a set of customer-facing KPIs developed by GSK, plus a comprehensive schedule of testing and monitoring to ensure compliance with the SLA and regulatory requirements. A robust governance process is also crucial for detailed root cause corrective action (RCCA).

Based on the monitoring of vendor performance, GSK can also target continuous process improvement using Genpact's Six Sigma/LEAN methodology to identify and implement best practices across similar services.

GSK measured performance by attaching critical service levels, such as delivering financials on time, and non-critical service levels to each shared process. Failure to meet these service levels results in financial penalties for Genpact. Initially, there were around 60 critical and 140 non-critical

Governance: a top priority

The retained governance team at GSK is key to monitoring Genpact's performance and the shared financial services model, and all roles are clearly defined.

Shared financial services (SFS) director: maintains overall responsibility for governance and must sign off on statutory accounts. Holds weekly catch-up calls with Genpact, handles any issues escalated to a high level and regularly visits the Genpact site in Hyderabad.

Compliance and control manager: ensures that Genpact is compliant with all statutory requirements, including Sarbanes-Oxley and International Financial Reporting Standards. Oversees compliance with GSK's internal policies and holds overall control of the process environment to eliminate, for instance, fraud. Key responsibilities include visiting Hyderabad

three times a year, reviewing Genpact's controllership log, testing Sarbanes-Oxley each month and producing quarterly compliance plans for Genpact.

Process owners: ensure that Genpact performs in line with the agreed parameters of the service level agreement (SLA), while maintaining responsibility for Sarbanes-Oxley compliance in their specific areas. Process owners are vital to monitoring Genpact's operational performance and can sign off on process improvements.

Customer account managers: support the SFS director in operational account management with GSK's key business customers. They agree and update SLAs, act as the main contact for any issues emerging from the business and are charged with quick resolution or escalation of these issues.



service levels in all. Blackburn explains: 'We had a lot of measures, but we wanted to have as few critical service levels as possible. We might say that if the vendor missed a critical service level in consecutive months that there would be a financial penalty, which would also be incurred if a non-critical service level was missed regularly over a longer period.'

Genpact has missed very few service levels, according to Blackburn, and as a result, GSK was able to review the critical service levels after a year, reducing them to reflect a new baseline reality and customers' feelings about the service.

GSK's commitment to rigorous governance of vendor contracts is exemplified by the fact that it retained 20 employees after the initial SFS deal – more than is usual in such agreements – and has its own compliance officer to ensure strong controls are in place. Therefore, if GSK employees have issues with their payments, they can escalate the enquiry from the call-centre to a fellow GSK employee.

The shared service operation comes under GSK's Sarbanes-Oxley policy, and the company has identified three cycles per year of testing, which is ultimately reviewed by the compliance officer. Weekly operational meetings, where performance measurement criteria are constantly reviewed, help ensure that the buyer and vendor are aligned to the same strategic goals.

Steady as she goes

GSK's considered approach to managing and monitoring vendor relationships has allowed its partnership with Genpact to

progress, opening up new opportunities for cost reduction and process improvement. This is made possible by the development of sound performance measurement, risk mitigation and strong governance, which together foster mutual trust.

The relationship began with shared services, but has now expanded to encompass other areas of consultancy, with Genpact bringing its black-belt lean six Sigma expertise to bear on other process areas. It has, for instance, begun helping GSK understand why one-third of invoices coming in are passed due on the day they arrive – a feature that results in some 7,000 late paid invoices every month.

Blackburn says: 'We are comfortable with the risk mitigation we have in place. And we are very pleased with the outcome, which has given us more confidence. There is good risk control.'

The evolving partnership has also resulted in new approaches to incentives and rewards, with GSK and Genpact now exploring profit-sharing on new initiatives, such as the ongoing negotiations with suppliers over possible discounts for early payment. Genpact is also looking to help GSK improve its online payment record, partly to avoid duplicate payments.

GSK has not ruled out bringing in other vendors to meet its process needs, partly to foster healthy competition, but its experience with Genpact illustrates the value of looking long-term, beyond cost savings, and approaching vendor performance measurement with rigour. ■

The internal-external balance

GSK retained some processes and key personnel when entering into its UK shared services agreement with Genpact, largely to ensure thorough governance of the relationship, though some 200 staff and a large number of processes were handed over to its external partner.

Processes and teams retained by GSK:

- GSK governance team
- shared financial services director
- compliance and control manager
- expat payroll.

Processes outsourced to Genpact:

- accounts payable
- travel/expenses
- banking services
- payroll
- fixed assets
- management accounting
- management reporting
- corporate reporting
- helpdesk
- inter-company finance and accounting
- masterfiles
- system support.

Paul Blackburn

Paul Blackburn is group financial controller for GSK, a position he has held since April 2005. His responsibilities include internal and external reporting, forecasting and planning, S404 compliance and compliance with IFRS. Prior to this, he was corporate controller for six years.



Blackburn joined SmithKline Beecham in September 1977 as a financial analyst and has held multiple finance positions of increasing responsibility in the UK, Ireland, USA and Belgium. All these positions supported commercial management. Before joining SmithKline Beecham, he was an auditor with Cadbury Schweppes plc. Blackburn has a degree in Management Science from Warwick University and is a member of the Chartered Institute of Management Accountants.