Transformational Leadership: Microsoft’s OneFinance Initiative

Mastering high-performance BPO

Keys to the Kingdom

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Introduction

In the twenty years we have been studying global outsourcing, clients and providers have expressed some persistent challenges about the outsourcing industry. One of these challenges is: “How can clients and providers sustain high-performance over the long-term?”
Within the first two years of the typical relationships we studied, providers had dispensed all their transformational levers, the initial leaders had moved on to new challenges, and the remaining team lacked ideas for new rounds of transformation. The outsourcing industry can learn from exemplars that sustain high-performance over the long-term. Based on our recent case study research on more than 20 client-provider relationships, the Microsoft-Accenture BPO relationship for financial, accounting and procurement services stands out as one of those exemplars.

In 2006, Microsoft was achieving extraordinary growth by allowing a high degree of autonomy for its subsidiaries. But autonomy also resulted in high fragmentation of the company’s finance, accounting, and procurement functions. Microsoft sought to standardize these processes globally with aims to reduce costs, improve service and compliance, and focus internal roles on more strategic activities. To assist Microsoft in this initiative—called “OneFinance”—it partnered with Accenture in 2007. The initial seven-year agreement spanned 90 countries and 450 individual roles. Within 18 months, the partnership designed and implemented a global set of standardized processes across 92 countries, improved internal controls and compliance, improved scalability, and reduced costs by 35 percent. Microsoft controllers were able to focus on more strategic activities. Prior to the partnership, 75 percent of the controllers’ time and resources were spent on transactional activities and compliance, which dropped to 23 percent after outsourcing. In 2009, the partnership was extended to include more accounts payable and buy center processes. The contract—now worth $330 million—was extended until 2018. The partnership then delivered an additional 20 percent in savings by streamlining, simplifying, and/or automating key procurement and accounts payable processes.

The partners implemented new tools that increased transparency by allowing Microsoft’s business users to see every dollar spent and timely measures on performance. Five years into the BPO relationship, the partners continue to innovate Microsoft’s financial, accounting, and procurement processes. In 2010-2011, for example, the partners moved 25 international subsidiaries from manual invoicing to electronic invoicing, so generating millions in savings and improving accuracy. New transformation projects are planned each year.
The Microsoft-Accenture relationship has been lauded within the outsourcing community. In 2008, the Microsoft-Accenture OneFinance relationship won the Outsourcing Excellence Award for Most Strategic Relationship, sponsored by Everest Group and Forbes. In 2010, the relationship won the Best Mature Outsourced Service Delivery Operation by the Shared Services Outsourcing Network. In 2011, the relationship won the Global Excellence in Outsourcing Award (GEO) for Innovation, sponsored by the International Association of Outsourcing Professionals. In 2011, its Asia-Pacific operations were awarded for Best Customer Service by the Shared Services Outsourcing Network.

How do the partners continue to deliver high performance? Our research on the Microsoft-Accenture relationship identified nine practices that created and help to sustain high performance. Six of these practices (indicated by a single asterisk) confirm findings from a recent survey of more than 250 BPO clients by Everest Group and we uncover three additional practices based on our interviews (indicated by double asterisks). The Microsoft case shows how these nine practices—under the right leadership—can sustain high-performance over the long-term. These practices are:

1. Focus on benefits beyond cost reduction*
2. Adopt a partnership-based approach*
3. Take a holistic approach to the scope of the BPO relationship*
4. Drive strong transformational and change management capability*
5. Contextualize data through domain expertise and analytics*
6. Emphasize benefits of technology in the BPO relationship*
7. Don’t settle for “green” service level performance**
8. Prioritize and incent innovation**
9. Acknowledge and reward the provider’s staff **

*Practice that was identified by Everest Group survey and confirmed by our interviews
**Additional practice identified by our research and interviews
Key practices
Everest Group’s BPO survey found that high-performance BPO relationships consider cost benefits to be table-stakes and instead focus on achieving more strategic benefits like getting products on store shelves faster, speeding product testing, increasing customer satisfaction, or resolving customer issues better and faster. Clients include these business benefits in the business case, setting the tone for attracting the right provider.

At Microsoft, the main objective of the outsourcing decision was to create a world-class financial organization. If processes were redesigned, standardized globally, and technology-enabled, services would improve, compliance would increase, and employees could focus on more strategic activities. Of course, cost savings were expected and included in the business case, but the main objective was a high-performance, global financial organization.

Given these business objectives, Microsoft knew that they needed to find an outsourcing partner—not a vendor—to help transform financial, accounting, and procurement services. Henric Häggquist, Microsoft’s senior director of financial operations, described how clients who focus only on price are buying commodities, not differentiated services. He explains: “A lot of companies buy outsourcing services like they are buying consumables. If you treat your vendor like that, I mean a vendor that you don’t have a long-term relationship with, you can basically switch the vendor every day if you choose to in your purchasing. Price is probably the only real thing that you think about.”

In contrast to buying a commodity service based solely on price, Microsoft looked for a partner that could transform processes on a global scale. Microsoft selected Accenture because they had the best domain expertise, because they had the most secure transition method, and because they had the global scale to service 90 or more counties.
Everest Group’s BPO survey found that adopting a partnership-based approach to governance is a best-in-class BPO practice. The survey identified several important sub-dimensions of this practice: collaborative BPO governance, viewing the provider as a strategic partner, resolving conflicts fairly, and re-defining business objectives as the partnership matures. Our own research confirms the importance of collaborative BPO governance (see Practice 2a) and confirms very strongly the sub-dimensions about viewing the provider as a strategic partner (Practice 2b) and resolving conflicts fairly (Practice 2c).

Practice 2: Adopt a partnership-based approach

Practice 2a: Adopt a partnership-based approach by creating mirrored governance

Our research found that collaborative BPO governance is enabled by governance structures, such as joint operating, management, and executive committees and mirrored organizational designs. But we found that a collaborative governance structure is a hygiene factor because the absence of such structures may result in poor performance, but the presence of collaborative governance structures does not in itself necessarily lead to high performance. In practice, if not designed correctly, they can inhibit, rather than enable, high performance.

Microsoft and Accenture set up a mirrored governance structure, meaning that everyone has a counterpart in the other organization. The mirrored structure facilitates effective communication and conflict resolution at the lowest possible levels. Microsoft’s Senior Director of Financial Operations said: “At the start of this contract, we built a mirrored governance organization. I am mirrored by the Outsourcing Account Delivery Manager within Accenture. Each of my global process owners, I have one for each of the three streams (accounts payable, buy center, and record) has a counterpart in Accenture. They all feel that they have a counterpart inside the other organization and together they own the delivery.” Because governance was so critical to success, Microsoft pays Accenture a fee to cover governance costs.

Practice 2b: Adopt a partnership-based approach by treating the provider as a strategic partner

A partnership-based approach begins with an attitude we call the “Partnership View” in which a client regards the provider as a strategic partner rather than as an opportunistic vendor. The Microsoft executives in charge of the BPO relationship indeed view Accenture as their strategic partner. The top Microsoft executives use a marriage metaphor to describe their relationship with Accenture: “We are married” says Microsoft’s Senior Director of Financial Operations. This metaphor is behind their mantra about working “TOGETHER”:

“A problem is not a Microsoft problem or an Accenture problem; it’s our problem so we have to work TOGETHER. TOGETHER is capitalized, and its meaning is exactly what you would find in the English dictionary. It’s not different. The reason why it is capitalized is that you want to enforce the theme or the basic principle that we have to work TOGETHER.”—Srini Krishna, director of global vendor management, Microsoft finance operations

In high-performing relationships we studied, client executives actively diffuse and reinforce effectively the partnership attitude throughout the client organization. When client employees lapse into complaining and blaming the provider, the client executives from high-performing relationships buttressed the partnership view. This practice was certainly evident at Microsoft:
“I get frustrated when we don’t think about the concept of working TOGETHER with Accenture. There is a saying that ‘if you point your index finger at someone, then the rest of your fingers actually point at yourself.’ That’s why I think the concept of TOGETHER is so important. It drives a lot of the success that we have.” —senior director of financial operations

Practice 2c: Adopt a partnership-based approach by resolving conflicts fairly

The partnership view manifests itself in partnership behaviors—such as resolving conflicts fairly and protecting both parties’ commercial interests—that result in high BPO performance from both client and provider perspectives. At Microsoft, the Senior Director for Financial Operations actually claimed that Microsoft and Accenture have never had a significant conflict. He said: “I’m not sure that we’ve had a significant conflict. We’ve always kind of sat down and found a common ground or common financial outcome. Obviously, there are times when I said, “Enough is enough. This is as far as I go.” I explained why I think it is fair why I won’t go any further. I never had Accenture coming back and saying, “No way” on that. So, I don’t think we’ve had a major conflict!”

Do the partners argue? Of course, particularly when a change has significant commercial implications. When record processes were added to the scope, the transaction-based pricing did not fit the record context well. After back-and-forth debates, the partners agreed that they had to find a common sense solution rather than rely on the letter of the contract. The parties split a settlement. What they learned going forward was that the contract model does not produce a “fact” but instead produces a starting point for a conversation. They agreed that the top two leaders from each side would meet quarterly for two days away from the office. The idea is to vet issues before they escalate to the formal twenty-person governance meetings. One of those executives said, “So every quarter, the three, four of us go spend two days together, work through all these things and ensure that nothing ever comes to the boil.”
Everest Group’s BPO survey found that high-performance businesses drive strong transformational and change management capability. Our research confirms that leaders from high-performing BPO relationships understand that enthusiasm at the top ranks does not trickle down automatically to the bottom ranks. Therefore, partners from high-performing BPO relationships couple ambitious transformational projects with aggressive change management. The client’s business users—who may be scattered world-wide—must understand and embrace the outsourcing objectives. High-performing BPO clients communicate clearly and frequently to their business users, recruit the client’s best people for transition and project teams, and integrate the provider within the client organization.

Microsoft and Accenture created a dedicated change management program to ensure that their 230 “go live” events were successful. A combined team from Microsoft and Accenture created global, functional, and subsidiary-specific communication plans to engage with the various impacted audiences. Each transition event had five major milestones, starting with a country-level launch event and ending with a formal hands off to operations. Communication was critical. Microsoft held two-day, face-to-face meetings with subsidiary controllers to educate key stakeholders.9

“At the two-day Controller Connection session, we introduced the Microsoft financial controllers to the new operating model for finance. We collectively made sure people bought into the change. That made a big difference.” Anoop Sagoo, senior executive, Accenture10

Local leaders were assigned the responsibility of client readiness, signaling to the subsidiary that change was “close to home”.11 Assigning subsidiary leaders to the transition team gave subsidiaries confidence that “one of their own” from the region was providing input and direction to the solution, rather than someone from corporate. Sagoo added, “Microsoft committed their best people to make the outsourcing program a success. They put in as many hours as we did to get this right.”12
Everest Group’s BPO survey found that high-performance BPO relationships take a holistic view of the end-to-end business process. The client and provider work together to focus on process excellence, consolidation, rationalization, and standardization across business units and geographies. The client includes the provider and business end-users in “the whole picture” of the end-to-end business process, even when the provider is only directly accountable for discrete subprocesses.

As the Microsoft-Accenture relationship matures, the partners increasingly focus on end-to-end service metrics rather than just spotlighting that Accenture’s service level agreements (SLA) within the end-to-end process are “green” or not. For example, the partners aim to hit an end-to-end metric of 95 percent of the journal entries on Microsoft’s balance sheet being less than three months old. They now report the end-to-end metric to the Financial Controllers, not just the embedded SLA. Microsoft’s Senior Director of Financial Operations explains: “You could go to a Financial Controller in a country and show them a sea of green in SLAs while the process was actually pretty poorly performing. Now combining those SLAs and end-to-end metrics we can show that the end-to-end is working fine or not working fine, and the Accenture piece inside of that is performing well or not performing well. We put the spotlight on Microsoft also to make sure we drive the best outcomes for the company. Of course Accenture works TOGETHER with us to do this.”
Practice 5: Contextualize data through domain expertise and analytics

Everest Group’s BPO survey found that high-performance BPO relationships leverage the combined process and industry expertise of the service provider. In high-performing relationships we studied, the provider applies their domain expertise to launch rigorous analytics processes that measure the right key process indicators, deploy tools and techniques to measure and report on KPIs and deploy algorithms, models, and sophisticated statistics to identify weaknesses and opportunities. Then, the partners redesign processes to deliver measurable business outcomes.

Nearly all of the transformation projects at Microsoft are enabled by the provider’s domain expertise and strong analytics. One example is the project to increase the number of invoices paid within terms. Prior to the transformation project, 70 percent of invoices were paid within terms. Applying analytics, the data showed that decentralized Microsoft employees were not approving invoices until late in the cycle because they simply were not aware discounts were at risk. After the transformation project, 88 percent were paid within terms and the target is to reach 92 percent in the coming year. Besides realizing the monetary discounts of paying on term, the service improved:

“Paid within terms (PWT) is such an important concept because if you pay your invoices on time then, in general, you don’t get questions from your vendors. The worst thing that you want to get is questions from your vendors because then you need someone who answers those questions. And, you get questions from the business because they get questions from the vendors. You want this to be a slick machine that performs in the background. That’s a very good measurement that we’ve had. PWT is not a SLA, yet Accenture uses its insights to support us to deliver this business outcome. We’ve driven PWT over the last four years and improved a lot on that one.”—director of financial operations, Microsoft

Another example is better cash forecasting. Global companies like Microsoft must allocate enough cash to each country to pay their employees and vendors. Because overfunding has less dire consequences than underfunding, companies tend to overfund, resulting in lost interest. By applying better analytics to forecast cash needs, the partners were able to decrease the overfunding rate from 10 percent down to two percent.
Everest Group’s BPO survey found that high-performance BPO relationships leverage technology for business outcomes. Technology is clearly an important factor enabling the success of the Microsoft-Accenture relationship as evidenced by our interviews and by their 2011 Global Excellence in Outsourcing Award (GEO) for Innovation. That award specifically mentions two technology innovations: The Controller Workspace and The Governance Workspace. Given that Microsoft is one of the world’s leading technology companies, it is not surprising that they exploit technology to great effect in their BPO relationship with Accenture.

Four technology practices enable high-performance:

1. Microsoft has a single-instance global ERP system, which facilitates process standardization, rollouts, and onboarding for new subsidiaries. It has been identified as a key enabler of shared services, yet few global firms have achieved this milestone.

2. Microsoft and Accenture reduced the number of systems used in financial, accounting, and procurement operations from 140 to 40 worldwide. Reducing the number of systems takes out costs and facilitates the standardization of processes.

3. Microsoft developed the Controller Workspace, a new, global, centralized tool that provides Microsoft’s financial controllers oversight and management of such things as the daily close processes and the ability to delegate transactional activities to Accenture’s assistant financial controllers. The tool is a central repository for all data about close and compliance processes that may be accessed by employees located around the globe to get accurate, timely, and reliable data.

4. The Governance Workspace is a tool designed for transparency and fact-based management of the BPO relationship. The Governance Workspace supports the collaborative BPO governance structure discussed in Practice 2a.
In our case study research, we found that excellence in service level delivery is a characteristic of high-performing BPO relationships. But partners in relationships that sustain high performance over the long-term do not stop there; “green” indicators on service level performance reports are not the end-game. In high-performing BPO relationships, the provider doesn’t just care that its services levels are “green”, but that it is driving the right behaviors that matter most to business clients.

At Microsoft, Accenture has done an exceptional job at meeting service level agreements (SLAs). There are about 25,000 SLA points annually and Accenture’s pass rate is about 98.5 percent: “Are they meeting our SLAs? Well, they do. They are meeting them by a fantastic margin. When you start to look at the size and scale and so on of the operation then the SLA performance is truly exemplary.”—Srini Krishna, Director of global vendor management, Microsoft finance operations

The Microsoft-Accenture team is not content with merely meeting SLAs but instead continue to re-examine the SLAs. Microsoft cares more about Accenture resolving their service requests and issues than meeting an SLA to answer phones or respond to emails in a given time period. The partners are refining that SLA. “Accenture has a responsibility to deliver to its contractual obligations, that is meeting SLAs (being efficient). However we also put emphasis on making sure we drive the right end to-end results, making things better for the client (being effective.)”—Andrew Cheung, outsourcing account delivery manager, Accenture

Practice 7: Don’t settle for “green” service level performance
Most outsourcing deals we have studied are not designed for innovation, even though the parties may devote a lot of rhetoric to innovation. The three biggest innovation obstacles we’ve encountered are lack of governance, lack of proper funding, and lack of aligned incentives. When innovation was expected to happen within the governance structure of a traditional cost-focused contract, we found that innovations were rarely achieved because the provider’s attention was focused on urgent operational issues.

Sometimes clients volunteered an innovation fund against which approved client/provider proposals could draw, but we found that these funds were often too puny to sufficiently support potentially impactful innovations. Gainsharing has been identified as a best practice for aligning client-provider innovation incentives, but the mechanism is fraught with challenges, such as figuring out the actual benefits to share fairly as gains.
In the Microsoft-Accenture relationship, the partners overcame these three obstacles. The partners created a transformation program with an associated governance structure devoted to innovation to embed innovations and transformation projects into the relationship from the start. The partners answered effectively the question, “Who will pay the upfront investments for innovations?” Innovations are delivered via transformation projects and are funded by the client from the savings generated by outsourcing. Funding for innovation is driven by a program that is outside of the economics of the original contract. This implies that Microsoft compensates Accenture for any impact the innovation would have on their original contract economics. They aligned incentives through gainsharing, but avoid the battles gainsharing usually triggers by agreeing to the gainshare in advance.

For transformation projects, the partners agree upfront how much Microsoft’s bill will be reduced. Accenture is guaranteed a share of that savings, and if Accenture can outperform, they pocket the difference. If Accenture underperforms, it absorbs the loss. For example, if Accenture is charging $100 for service performed by person X and earning $10 in profit, a transformation project that would eliminate person X would normally mean a loss of $10 profit for Accenture. Microsoft incent Accenure by agreeing to pay, say, $20 after the transformation. Under this hypothetical scenario, Accenture doubles their profit and Microsoft is guaranteed a reduced bill by $80. If the transformation project exceeds or falls short of expected gains, Accenture pockets the additional gains or absorbs the losses. This mechanism was designed to properly incent Accenture. Microsoft’s senior director of financial operations explains, “If I run a project together with Accenture that takes that person away, then Accenture loses the revenue of 100 and a profit of 10. That would be stupid of Accenture to do. So what we then did was looked at those projects to make sure we have a split of the gain-share to make it attractive for both of us to do this.”

The overall effect is the creation of strong incentives for Accenture: “My client recognizes that I need to meet my financial commitments as the service provider. That may sound strange but there is a realization that, fundamentally, I have to be incentivized to do some of the things I need to do. The key message is a spirit of partnership that I don’t think exists in the other engagements that I’ve come across.” outsourcing account delivery manager, Accenture.
Global BPO deals are serviced by the provider’s remote delivery teams located in places like India, the Philippines, and Eastern Europe. Our research has found that providers need clients to acknowledge and reward the provider’s staff so they feel connected to their clients. Provider employees appreciate even simple things like a thank-you email or a small token to display in their cubicle. In high-performing BPO relationships we have studied, the client’s leaders personally visit remote provider employees at least once a year and frequently acknowledge and reward good work. The bottom-line results are reduced turnover in offshore locations and provider employees who feel empowered to positively challenge the status quo. Accenture certainly values the way Microsoft acknowledges their staff:

“The client recognizes that I fundamentally need to be successful in terms of creating an environment where my people can drive performance of my team. We collaborate to foster a positive working environment i.e. where Microsoft and Accenture focus on affirming and rewarding desire behaviors. A very simple example: whenever my client writes one email to one of my operators in Chennai to say he’s done a fantastic job and sends it to the whole operation, it makes him feel better, makes him feel proud of himself. The people motivation dimension is important but other companies seem to forget about it just because it’s an outsourced environment. But to me, we are still a people business and motivating people is still key Microsoft actively supports us in our people recognition.”

–Outsourcing account delivery manager, Accenture.

This last practice ties to the main theme of the Microsoft-Accenture relationship and its reason for success: Because BPO is a people business, individual leaders make the difference.
By any definition, the individual leaders at both Microsoft and Accenture are clearly transformational leaders. In the case, leaders were in place at all levels to create and sustain the new reality of collaboration, innovation and high performance. Furthermore, these leaders have been devoted to this partnership since the beginning. The stability in the senior leadership for Microsoft and Accenture has clearly contributed to sustaining high performance. This is not what we usually find in long-term agreements where client and provider account managers turn over every few years.

We think that high-performance BPO requires transformational leadership because BPO is a people business. Considering that most of the costs of BPO come from globally dispersed labor and that the services are delivered by people from two different companies with two different cultures, merely “managing” a BPO relationship would not produce the results we witness at Microsoft. The leaders created the vision of a world-class finance organization, aligned incentives between client and provider organizations, motivated and inspired and empowered the people in their chains of command, and delivered—and more impressively, continue to deliver—high performance.
1. We conducted interviews with BPO clients and providers from October 2011 to February 2012. The interviews were typically 45–60 minutes in length and used a pre-designed questionnaire aimed at eliciting performance outcomes and effective and unsuccessful practices. The sample was drawn from across sectors and countries, with outsourcing deals ranging in size from small to very large. Nearly 50 percent could be identified as high-performers.

2. Accenture (2010), Microsoft OneFinance


4. IAOP’s Global Excellence in Outsourcing 2011 Award Winners: https://www.iaop.org/Content/19/165/3131

5. Accenture (2010), Microsoft OneFinance


7. see IAOP’s Global Excellence in Outsourcing 2011 Award Winners: https://www.iaop.org/Content/19/165/3131

8. The survey was conducted by Everest Group with support from Accenture in late 2011 and is reported in Accenture (2012) Achieving High Performance in BPO Accenture, London. The survey identified 20 percent of respondents as “high-performance” scoring strongly on at least three must-have attributes, and in the top quartile on seven additional attributes. A further 20 percent were potential “high-performance” performers meeting one or other of these two criteria; 60 percent were “normal” BPO performers meeting neither criteria. Note that “typical” here covers a wide spectrum of performance from normal to poor. The research found that levels of performance were independent of industry, geography, size of deal, tenure of BPO relationship and business function outsourced. “High-performance” was twice as frequent when two functions were outsourced as a bundle (as opposed to one function or three or more functions).

9. Hawes, T. Strategic Outsourcing: One Finance: Microsoft and Accenture


11. Hawes, T. Strategic Outsourcing: One Finance: Microsoft and Accenture


15. see IAOP’s Global Excellence in Outsourcing 2011 Award Winners: https://www.iaop.org/Content/19/165/3131
